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NAVAL POSTGRADUATE SCHOOL

Monterey, California

THESIS

MANAGING THE
CONTRACT CLOSEOUT PROCESS

by

Janet Johnson Patton

March, 1992

Thesis Advisor: Rodney F. Matsushima

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The primary objective of this thesis was to review the closeout process within DoD activities and determine how the process might be made more efficient. Secondary objectives include identifying the problems in the current process and determining the impact of failure to close out contracts in the time frame stated in the Federal Acquisition Regulation (FAR). Finally, a Contract Closeout Process Summary has been developed as a by-product of this thesis. This guide can be utilized as a training aid or procedures manual.

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Managing the
Contract Closeout Process

by

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DoD Civilian, Naval Supply Center, Norfolk, VA
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Submitted in partial fulfillment
of the requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

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ABSTRACT

The primary objective of this thesis was to review the closeout process within DoD activities and determine how the process might be made more efficient. Secondary objectives include identifying the problems in the current process and determining the impact of failure to close out contracts in the time frame stated in the Federal Acquisition Regulation (FAR). Finally, a Contract Closeout Process Summary has been developed as a by-product of this thesis. This guide can be utilized as a training aid or procedures manual.

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I. INTRODUCTION

A. INTRODUCTION

Before a contract can be officially "closed-out" and retired to the archives, a closeout process is executed to ensure that all rights and responsibilities of both parties have been met. This process requires a number of administrative actions from both the contractor and the Government. A contract is fully closed only when it is both physically and administratively complete.

Timely and efficient action taken in closing out physically completed contracts serve the following purposes:

- Ensures that all contractual obligations have been fulfilled and that the interests of the Government have been adequately protected.
- Identifies incomplete actions that may have been overlooked.
- Keeps office files reduced to current active contracts.
- Permits the early identification and deobligation of excess unliquidated funds.
- Provides a complete and accurate record of all contractual actions taken by the Contracting Officer.

No contract, even though physically competed, can be closed out while it is in litigation, while an appeal is pending before the Armed Services Board of Contract Appeals (ASBCA) or the General Services Board of Contract Appeals (GSBCA), or until all termination actions have been completed.

B. OBJECTIVES

The primary objective of this thesis is to review the closeout process within Department of Defense (DoD) activities and determine how the process might be made more efficient. Secondary objectives include identifying the problems in the current process and determining the impact of failure to close out contracts in the time frame stated in the Federal Acquisition Regulation (FAR). Finally, a contract closeout process summary or guide that can be utilized by contracting personnel as a training aid or procedures manual on the contract closeout process will be developed.

C. RESEARCH QUESTIONS

To complete the objectives, fundamental research questions were prepared. The primary research question is: What are the critical factors involved in effectively managing timely contract closeout and how might the process be made more efficient?

In support of the primary question, the following secondary questions will be addressed:

- What are the current contract closeout procedures?
- What are the unique factors associated with performing contract closeout?
- What are the principal impediments to timely contract closeout?
- What areas are particularly impacted by the failure to closeout contracts on a timely basis?

- What policy and procedural guidelines should be established or revised in order to more efficiently and effectively manage the contract closeout process?

D. SCOPE OF THE THESIS

The study will focus on the data accumulated from a survey sent to various DoD commands and the Coast Guard. The survey was sent to 100 different commands, including as wide a variety of contracting organizations as possible. However, the majority were Navy commands. The results of the survey represent primarily Navy responses with some representation from the Army, Air Force, Marine Corps, Coast Guard, and the Defense Contract Management Districts.

A Contract Closeout Process Summary has been developed as a by-product of this thesis. This guide can be utilized as a training aid or procedures manual. The Contract Closeout Process Summary is generic in scope and does not cover specific contract types.

E. METHODOLOGY

Data were obtained from several sources. First, the researcher conducted a review of the existing literature base to gain a basic familiarity and understanding of the contract closeout process. The literature search included a custom bibliography from the Defense Logistics Studies Information

Exchange (DLSIE). Additional literature included Government publications and reports, and published and unpublished papers.

Secondly, field research was conducted by visiting or contacting Government activities and interviewing personnel involved in the contract closeout process. Visits and interviews were conducted at a variety of DoD organizations and contractors that held contracts with Statements of Work that included closing out DoD contracts.

A final method of research included a survey of contract administration personnel at various commands. The survey was conducted to determine the current contract closeout procedures, problems encountered and recommendations to improve the contract closeout process. Appendix A contains a list of the activities that were instrumental in getting the survey completed and returned in a timely manner.

F. ORGANIZATION

The research is divided into five chapters. In this Chapter, the objectives of the research have been set forth, the scope and direction of the effort identified and methodologies for data collection presented.

Chapter II provides a basic framework of what is involved in closing out contracts. It will include definitions of common terms used in the contract closeout process.

Chapter III discusses the collection of data from the survey and Chapter IV analyzes the significant factors found in the data. Finally, Chapter V will summarize the results of the research and present conclusions, recommendations, answers to the research questions and recommendations for further research.

II. BACKGROUND

A. INTRODUCTION

Contract administration is a management process to ensure that the contractor delivers the supplies or services on time, goods or services delivered are of the quality required by the contract, and costs are reasonable. Contract closeout is the final process of contract administration performed to ensure that the contractor has complied with all the contractual requirements and that the Government has also fulfilled its obligations [Ref. 1:p. 267]. The closeout process completes all the individual actions started during earlier segments of the contracting process. Once the contract is officially "closed out", it can be retired to the archives.

As a general rule, closeout starts when a contract is terminated or the contractor has delivered and the Government has accepted the supplies or services, or it is otherwise determined to be physically completed.

After contracts are physically completed, the Administrative Contracting Officer (ACO) conducts the closeout process to provide reasonable assurance that all financial and property transactions have been completed, and that Government resources have not been lost through fraud, waste or mismanagement. [Ref. 2:p. 1] No contract, even though

physically competed, can be closed out while it is in litigation, while an appeal is pending before the ASBCA or GSBCA, or until all termination actions have been completed. A contract is fully closed only when it is both physically and administratively complete.

The closeout process requires a number of administrative actions from both the contractor and the Government and varies by type of contract. The closeout process becomes more complex as the dollar value of contracts increases and more complex types of contracts are used. Closeout can be a long and time-consuming process due to the numerous actions that need to be executed and the various activities involved. The FAR outlines 15 actions that must be completed to close out the contract. Various activities are involved in each of those actions; the different activities include contracting offices, receiving activities, finance offices, as well as the Defense Contract Audit Agency (DCAA) and the Defense Contract Management Command (DCMC). Each action must be completed in a timely manner to ensure the overall process is properly completed.

B. GENERAL DEFINITIONS USED IN THE CLOSEOUT PROCESS

The following definitions, with the exception of Quick Closeout, are from the Air Force Institute of Technology School of Systems and Logistics Advanced Contract

Administration course and are of common terms used in discussion of contract closeout:

1. Physically Complete Contract

An important aspect to understand about closeout is when the contract becomes physically complete. All closeout activities are linked to this date.

The official definition of physical completion can be found in the FAR 4.804-4. It states that a contract is physically completed when both the Government and the contractor agree to the following:

- The contractor has completed the required deliveries and the Government has inspected and\accepted the material (DD Form 250 completed);
- The contractor has performed all services and the Government has accepted such services;
- All options, if any, have expired; or,
- The Government has given the contractor a notice of complete termination.

2. Closed Contract

Contracts exceeding the small purchase limitation (over $25,000) are closed when the buying activity contracting officer signs either the DD Form 1594 or PK9 (MILSCAP) Contract Completion Statement. The Contracting Officer should do this only after the contract becomes physically completed and all administrative actions are completed. However, a contract should not be closed while in litigation, or an appeal is pending before the ASBCA or GSBCA.

3. Administratively Complete Contract

When a contract is delegated to a cognizant ACO in the field, certain responsibilities go with the delegation (FAR 42.302). "Administratively complete" means that all the actions required of the ACO in the delegation of duties have been accomplished. Most ACOs use the DD Form 1597, "Contract Closeout Checklist". However, additional responsibilities may be included in the contract that are not on the form. The ACO will also use another form, a DD Form 1594, "Contract Completion Statement." This form is used for two purposes. One is to notify the Procuring Contracting Officer (PCO) when the contract is physically completed and the second is to inform the PCO that the closeout actions have been completed.

4. Completion Statement

A formal statement by the contractor stating that all supplies and/or services have been furnished to the Government.

5. Quick Closeout Procedure (FAR 42.708)

The "Quick Closeout Procedure" can be utilized when the contract is physically complete and closeout will be delayed pending DCAA's final indirect cost determination. The Quick Closeout Procedure allows the ACO to negotiate a settlement of indirect costs for a specific contract in advance of the determination of final indirect rates.

FAR 42.708 states that the use of the Quick Closeout Procedures can be utilized when:

- The contract is physically complete;
- The amount of unsettled indirect cost to be allocated to the contract is relatively insignificant as compared with the amount which would have been applied if the annual rates were applied; and
- Agreement can be reached on a reasonable number of allocable dollars.

In a May 1989 Memorandum for Distribution, the Office of the Assistant Secretary of the Navy (Shipbuilding and Logistics) (ASN (S & L)) defined "unsettled" to be those costs which are classified by the DCAA as "questioned" or "unsupported" for those years which have been audited by DCAA. For unaudited years, "unsettled" indirect costs are interpreted to be unaudited costs allocable to the contract. [Ref. 3]

Costs may be determined "relatively insignificant" when they do not exceed either 15% of the total indirect cost incurred on the contract, or $500,000, whichever is less [Ref. 4:p. 6118]. FAR 42.708 states that the final indirect costs under the quick closeout procedure are final for the contract it covers and no adjustments shall be made to other contracts for over- or under- recoveries of costs allocated or allocable to the contract covered by the agreement. In addition, indirect cost rates used in the quick closeout of a

contract shall not be considered a binding precedent when establishing the final indirect cost rates on other contracts.

Quick Closeout Procedures are used to speed up the process of closing out cost-type contracts. The ACO responsible for contract closeout may negotiate quick-closeout rates with the contractor. These rates are what the ACO "anticipates" the contractor's actual rates will be. The actual negotiated rates may take six to ten years to establish. By waiting for the negotiation of final overhead rates, the Government might obtain lower rates and therefore a lower overall contract cost, but the Government would have to wait several years to get that money back and the time value of money could negate any savings. Another consideration is that most contracting officers will keep more than enough funds obligated to cover any final overhead rate settlement. The sooner the contract is closed the sooner the excess funds can be deboligated. Again, the time value of money must be considered.

C. CONTRACT CLOSEOUT FILES

FAR 4.801 states that each office performing contracting, contract administration, or paying functions shall establish files containing the records of all contractual actions. During contract closeout, files must be updated and forms

authorizing contract closeout must be completed. Each office must close out their file.

1. Contracting Office Contract File

FAR 4.802(a)(1) states that the contracting office contract file shall document the basis for the acquisition and the award, the assignment of contract administration (including payment responsibilities), and any subsequent actions taken by the contracting office. FAR 4.803 states, in detail, the contents for the "contracting office contract file."

When the contracting (buying) office delegates administration to the Defense Logistics Agency (DLA) or another agency for administration, it sets up the creation of two sets of files on the same contract. The closing of the contracting (buying) office and administration office contract files are linked together whereas the paying office closes their files independently of other files.

2. Contract Administration Office File

FAR 4.802(a)(2) states that the contract administration office contract file shall document the basis for and the performance of contract administration responsibilities. In FAR 4.803 (b), the specific items to be included in the contract administration office file are set forth. This file is maintained by the Contract Administration Office (CAO) for use in administering the contract. During

contract performance, many official records may not be in the ACO's file such as; Government property, quality assurance, production, engineering, and purchasing system information. During the contract closeout process these files are assembled together in the contract administration contract file.

The closing of the buying and administrative contract files are linked together by one form; the DD Form 1594 "Contract Completion Statement". Although the buying and administrative files are closed separately, they close on the same date. This date is assigned by the ACO. If the buying activity cannot close its files within 90 days of the administrative office date, then the ACO assigned closeout date is superceded by the PCO assigned dated. It is important that the PCO advise the ACO of the new date so the administrative files are not closed/stored and destroyed early.

3. Paying Office Contract File

FAR 4.803 (c) states that the paying office contract file will contain:

- Copy of the contract and any modifications
- Bills, invoices, vouchers and supporting documents
- Record of payments and receipts
- Other pertinent documents.

The finance office closes its file independently of the PCO and ACO files and uses no special forms. The paying office contract file is closed upon final payment.

D. PERSONNEL INVOLVED IN THE CLOSEOUT PROCESS

The Procuring Contracting Officer (PCO) and Administrative Contracting Officer (ACO) can be the same person. If the PCO does not delegate the administrative functions to another agency, s/he will be the ACO. On the other hand, if the PCO does delegate the administrative functions to another agency, that agency will assign an ACO to the contract.

1. Procuring Contracting Officer (PCO)

The PCO is the person who "opens" the contract by awarding it and then ultimately "closes" the contract at the end. The closing of the "contracting office contract files" can only be done at the buying activity. The ACO "administratively" closes the file.

2. Administrative Contracting Officer (ACO)

The ACO is responsible for completing and initiating the closeout action. S/He coordinates all organizations (the contractor, the requiring activity, DCAA, if applicable, etc.) involved with the contract and ensures that each has submitted the appropriate contract completion forms. When the ACO makes the determination that the contract is physically and

administratively complete, s/he then certifies it and forwards the certificate to the PCO for signature.

E. TIME FRAMES FOR CONTRACT CLOSURE ACTION

The Government has established standard time frames for contract closure action. FAR 4.804-1 states that the purpose of these time frames is to promote the timely closeout of contracts. For Firm Fixed-Price contracts (excluding small purchases), the goal for contract closeout is six months after physical completion. Contracts requiring settlement of indirect rates have a goal of 36 months and all other contracts have a goal of 20 months after physical completion.

F. CONTRACT CLOSEOUT PROCESS

FAR 4.804-5 states the detailed procedures for closing out contract files. The first step in the process of closing DoD contracts is a determination that the contract is "physically complete". The ACO responsible for closeout must assure that all supplies, or services, have been received and accepted by the Government. In addition, the ACO must assure that no option provisions remain open.

Secondly, an initial contract funds status review shall be accomplished and, where appropriate, excess funds identified to the PCO. The ACO, when delegated administrative duties, must prepare a DD Form 1594, "Interim Contract Completion Statement (Notice of Physical Completion)" as set forth in

DFARS 204.804-2. This is to alert the PCO that the contract is now physically complete and ready to begin the closing out process. If possible, excess funds can be removed at this time.

The third step of the contract closeout process is to ensure that the actions in FAR 4.804-5 have been completed. These actions are:

- Disposition of classified material is completed;
- Final patent report is cleared;
- Final royalty report is cleared;
- There is no outstanding value engineering change proposal;
- Plant clearance report is received;
- Property clearance is received;
- All interim or disallowed costs are settled;
- Price revision is completed;
- Subcontracts are settled by the prime contractor
- Prior year indirect cost rates are settled;
- Termination docket is completed;
- Contract audit is completed;
- Contractor's closing statement is completed;
- Contractor's final invoice has been submitted;
- Contract funds review is completed and deobligation of any excess funds is recommended.

In the fourth step, the contracting officer administering the contract shall prepare a DD Form 1594 "Contract Completion

Statement" verifying that all contract actions have been completed. The "closing date" is established by the ACO on the DD Form 1594. The ACO forwards the original DD Form 1594 to the PCO and retains a signed (by the ACO) copy of the DD Form 1594 in the administration file as authority to close the file. The ACO sends only the DD Form 1594 and not the entire file.

As stated above in Section C (2), although the buying and administrative files are closed separately, they close on the same date. This date is assigned by the ACO. However, if the buying activity cannot close its files within 90 days of the administrative office date, then the ACO assigned closeout date is superceded by the PCO assigned date. It is important that the PCO advise the ACO so the administrative files are not closed/stored and destroyed early.

The final step in the contract closeout process is the storing and disposing of the contract files. The FAR states that agencies shall prescribe procedures for handling, storing, and disposing of contract files. However, FAR 4.805 specifies individual retention periods for various documents.

1. Firm Fixed-Price Contracts

Because Firm Fixed-Price (FFP) contracts do not involve pricing actions at contract closeout, many of the actions listed in FAR 4.804-5 for closeout are not applicable. For example, final payment on a Firm Fixed-Price contract

does not deviate from the price agreed upon at contract award and therefore does not require:

- o Settlement of interim or disallowed costs;
- o Price revision;
- o Prior year indirect cost rate settlement; or
- o A contract audit.

2. Other than Firm Fixed-Price Contracts

In contrast to Firm Fixed-Price contracts, cost-reimbursement and other types of Fixed-Price contracts require several pricing actions, as well as additional administrative actions, before the contract can be closed out. All contractors performing Cost Reimbursement contracts shall submit a final closeout statement that includes a statement of accounts, a formal contract release (as required by FAR clause 52.216-7 Allowable Cost and Payment), performance summary, list of contract modifications and a patent/royalty report, if applicable. The ACO shall initiate a follow-up to the customer activity, requesting the Contractor Performance report (required by all Contract Administration Plans) and any additional information required regarding the status of the contract.

Additionally, Cost Reimbursement and Fixed-Price Incentive contracts require a final audit by DCAA to establish final indirect rates prior to being closed out. This is to ensure that all incurred costs are reasonable, applicable to

the contract, determined under Generally Accepted Accounting Principles (GAAP) and Cost Accounting Standards (CAS) applicable in the circumstances, and not prohibited by the contracts, by statute or regulation, or by previous agreement with, or decision of, the Contracting Officer. [Ref. 5:p. 601]

Once the DCAA audit report has been obtained, the ACO shall review the report to determine whether DCAA has found that the contractor was either overpaid or underpaid. This report will also state whether the contractor concurs or disagrees with the auditor's report. If the contractor disagrees with the auditor's report, the ACO will negotiate with the contractor to reconcile the differences.

If the ACO does not agree with DCAA's audit report, the PCO will make the final determination after reviewing DCAA's audit report and the ACO's detailed explanation on why s/he does not agree with the audit. If the audit report is acceptable and the contractor has been underpaid, the ACO shall review the contract file to determine whether sufficient funding remains obligated to pay any additional amount owed on the contract. Otherwise, the ACO shall initiate a request to the customer activity for the additional funding required to pay the contractor's final invoice and upon receipt, modify the contract to provide funding for payment. If the

contractor has been overpaid, the ACO shall make arrangements in accordance with agency procedures to recoup the overpaid amount.

a. Quick Closeout Procedure.

When the contract is physically complete and closeout will be delayed pending DCAA's final indirect cost determination, the quick closeout procedure may be utilized. In accordance with FAR 42.708, the ACO may negotiate a settlement of indirect costs for a specific contract in advance of the determination of final indirect rates when the amount of unsettled indirect cost to be allocated to the contract is relatively insignificant as compared with the amount which would have been applied if the annual rates were applied and agreement can be reached on a reasonable number of allocable dollars.

b. Terminated Contracts.

In accordance with FAR 49.303-3, if the contract was terminated and contains the clause at 52.216-7, Allowable Cost and Payment, a bilateral agreement may be utilized for final settlement of indirect costs. This method is used when it appears that adjustment of indirect costs will unduly delay final settlement. The Terminating Contract Officer (TCO), after obtaining information from the appropriate audit agency, may negotiate the amount of indirect costs for the contract period for which final indirect cost rates have not been

negotiated, or to use billing rates as final rates for this period if the billing rates appear reasonable.

G. SUMMARY

The basic contract closeout process is not complicated. However, because of the numerous variables (delegations, contract types, etc.), the basic process develops into a more complicated procedure. The complexity of the contract closeout process also increases with the number of different agencies involved.

Chapter II provided a basic framework of what is involved in closing out contracts, including definitions of common terms used in the contract closeout process. Chapter III will present data that were collected from a survey conducted by the researcher. The survey addressed various issues in the closeout process.

III. DATA PRESENTATION

A. INTRODUCTION

This chapter presents the data that were collected from a survey conducted by this researcher. The survey was sent to 100 different commands within the Department of Defense (DoD). Sixty-two surveys were completed and returned to the researcher.

Questions were asked to determine the following:

- The current practice used in closing out contracts;
- Common reasons for any contract closeout problems;
- Areas impacted from contracts not closed out in a timely manner;
- Participants in the contract closeout process;
- Actions to improve the current process.

B. CURRENT PRACTICE OF CLOSING OUT CONTRACTS

FAR Part 4.804, DFARS 204.804, and numerous instructions describe how contracts should be closed out. In each of these documents, policy and procedures are written in detail. The following questions in this section were asked to determine what the current practice of closing out contracts is and if policies and procedures are being utilized.

1. When do you usually initiate the closeout process?

It is DoD policy that contracts be closed as soon as possible after physical completion of the contract. A June 1987 Auditor General Report, stated that many contracting offices do not start closeout actions until the prescribed closeout time frames are reached or exceeded [Ref. 6:p 10]. This question was asked to determine if this finding was still valid. The survey results were:

37% As soon as the contract is physically completed,

16% Within the time limits of the FAR,

3% At the end of the time limit of the FAR,

47% Other.

The survey question did not differentiate between FFP contracts and Cost Reimbursement contracts. Many (47%) of the responses were conditional, such as:

- The closeout process is initiated when DCAA completes final audit;
- The process is initiated when the contract appears on the suspense list;
- The process is initiated when the contractor sends the final voucher;
- When time permits.

These responses were categorized as "other" because it could not be determined if the contract closeout process was initiated within the time limits of the FAR.

As for the other 53% of the responses, 37% initiated the closeout process as soon as the contract was physically completed, 16% initiated the process within the time limits of the FAR, and 3% started at the end of the time limit of the FAR.

2. How long does the closeout process usually take to complete?

This question was asked to determine how often the time frames for closing out contracts stated in the FAR were attained. Figure 1 shows the survey results for how long the closeout process usually takes for FFP contracts. The survey results for FFP contracts were:

70% Closed out within six months;

25% Closed out within a year;

5% More than a year to complete contract closeout.

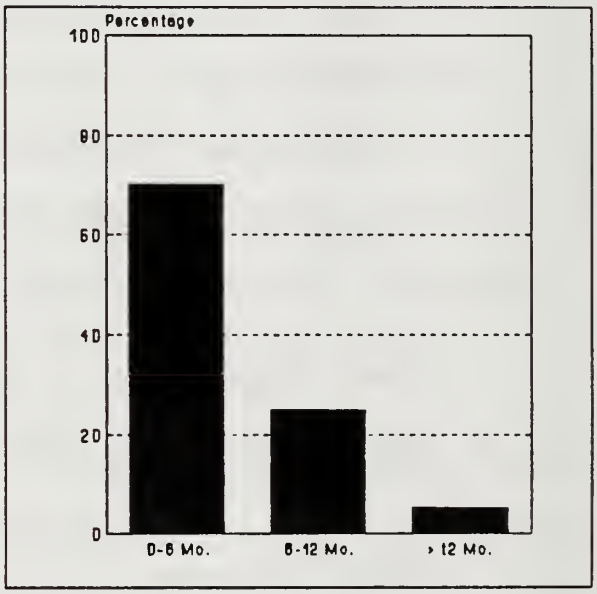

Figure 1: Time to closeout FFP contracts

Figure 2 shows the survey results for the length of the closeout process for Cost Reimbursement contracts. The survey results for Cost Reimbursement contracts were:

6% Closed out within three years;

54% Closed out within three to five years;

23% Closed out within five to seven years;

17% Closed out within seven to ten years.

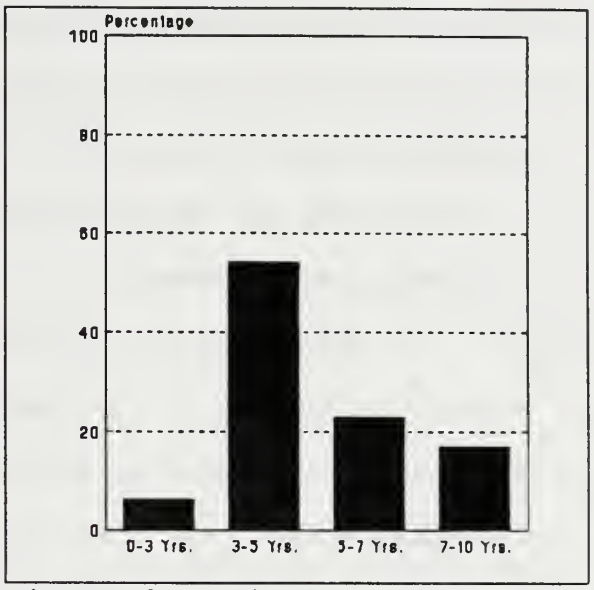

Figure 2: Time to closeout cost-type contracts

The majority (70%) of Firm Fixed-Price contracts are closed out within six months and 95% are closed out within a year. Only 5% of the Firm Fixed-Price contracts took more than a year to close out.

Only 6% of the Cost Reimbursement contracts are closed out within three years. Another 54% are closed out within three to five years, 23% between five to seven years and 17% between seven to ten years.

Eleven of the 62 responses were categorized as "other". The responses were conditional, such as "Once DCAA does the final overhead rate, then the closeout process takes one month." Because a time frame could not be determined by

those types of responses, the results of those responses were not included in the above percentages.

The survey also requested a time frame for closeout of Fixed-Price-Incentive-Firm (FPIF) contracts but the response rate for that category was so insignificant that an analysis could not be accomplished.

3. Do you usually meet the FAR time requirements for closing out contracts?

This question was asked, without stating the FAR time requirements, to determine the general indication of compliance with the FAR in the closeout process. The responses are in line with the responses to the above question, in that the majority of the respondents (75%) feel that they close out FFP contracts within the FAR time requirements but 86% feel that they **do not** close out Cost Reimbursement contracts within the FAR time requirement.

4. Do you close out the contract (1) in the sequence stated in FAR Part 4?; (2) one at a time (not going to the next step until the previous step can be checked off)?; or (3) concurrently (two or more at a time: whenever a step can be checked off)?

This question was asked because research had indicated that personnel closing out contracts tended to process closeout actions one step at a time in the sequence listed in the FAR. The responses to the survey revealed a different

result. Almost 98% of those that responded to this question stated that they process the closeout steps concurrently (two or more at a time; whenever a step can be checked off).

5. Have you ever utilized the Quick Closeout procedure?

An audit report [Ref. 7:p. 4] stated that many ACOs did not use FAR procedures that authorized quick closeout of contracts that were awaiting settlement of overhead rates because they were not aware of the method. This question was asked to determine if this finding was still valid. Survey results were:

47% Had utilized the quick closeout procedure at least once.

53% Had never utilized the quick closeout procedure.

Only 47% stated that they had ever utilized the Quick Closeout procedure. Of the 53% that never utilized the Quick Closeout procedure, the majority stated that they did not know that it existed or did not understand the procedure. Other reasons cited were:

- No contractors will work with me on it.
- Reluctance on the part of the contractor and field activity.
- It never seemed to work, so I had to revert to the regular process in the end.

6. **Have you ever issued a bilateral agreement using a DCAA estimated amount for overhead costs instead of waiting for DCAA to submit their final audit to close out a contract?**

Since the audit report referenced in Question 5 stated that many ACOs were not aware of the Quick Closeout procedure, the researcher included this question in the survey to determine if they were aware of the bilateral agreement procedure. Survey results were:

14% Had utilized the bilateral agreement;

86% Had never utilized the bilateral agreement.

Only 14% stated that they had ever utilized the bilateral agreement procedure to close out a contract. Of those that never utilized the bilateral agreement procedure, the majority stated that they were unaware of this practice or did not understand the procedure.

7. **How are contracts tracked to determine when they are physically completed?**

Since the contract closeout process is supposed to be initiated as soon as as the contract is physically completed, the researcher was interested in how the commands tracked the contracts to determine when the contract was physically completed. The responses were divided into two groups:

manual tracking and tracking using an automated system. Survey results were:

58% Tracked contracts manually,

42% Used a computerized automated system to track contracts.

The responses to this question demonstrate that there is no uniform system for tracking the closeout process. Some commands have an automated tracking system with formalized procedures while other commands track their contracts manually using informal procedures. The commands that use an automated system all utilize different computer programs for tracking contracts; there is no one standard program for tracking contract closeouts. DLA has a Mechanized Contract Administration Services (MOCAS) system that tracks shipment using data base inputs and provides visibility of contract completion to management and the ACO, but the Navy, Air Force, Army, Marine Corps and Coast Guard do not have the MOCAS system.

Forty-two (42%) of the Navy commands stated that their closeout process was automated. The respondents described various types of automated systems, some just track and report if the contract has been physically complete over 90 days, while others track the final audit date, final invoice date,

destroyed date, etc. Some responses describing the various Navy tracking systems are:

- We track contract closeout by a database system. Quarterly a list of contracts are sent to the negotiators to update the status of the contracts. It is the negotiator's responsibility to update the listing so the individual closing out the contracts knows what contracts are physically complete.

- We have a DBASE system set-up showing status of contracts, i.e., active, pending, retired. The contracts are also color coded yellow for pending, red for retired.

- A database is set up on the personal computer (PC).

For the remaining Navy commands that stated that they did not have an automated system, there was a wide variety of procedures for tracking the closeout process; there was no one uniform method of tracking the closeout process. Some examples of the different methods are:

- Contract closeouts are tracked by monitoring the "exception list".

- Letters are sent to the contractor, and 1593s sent to the Defense Contracts Management Area Office (DCMAO), no tracking per se exists.

- Sporadically, if we don't get a notification of the physical completion we rely on periodic sweeps of the files.

- Forms are sent to the requesting code asking if all services have been completed, all data received and Government Furnished Property (GFP) settled.

- Solicitation logs are reviewed or the contract is physically pulled to determine if it is ready for closeout.

8. Do you have a reporting system for closing out contracts?

This question was asked to determine if contract closeout status was in a reporting system that generated a report that management could examine. Survey results were:

64% Have a reporting system,

36% Did not have a reporting system.

Sixty-four percent (64%) stated that they had a reporting system. Reporting systems varied between commands; some commands had automated systems that produced reports and other command generated reports manually. From the comments on the survey, a percentage could not be determined as to what commands had an automated reporting system and what commands did not.

C. COMMON REASONS FOR PROBLEMS

In the contract closeout process, there are a wide variety of causes for delays and problems. The process requires a number of administration actions from both the contractor and the Government and requires actions by several different activities such as contracting offices, receiving activities, administrative activities, audit offices and finance offices. The following questions in this section were asked to determine whether or not common reasons for problems could be identified throughout the different DoD commands.

1. What is the major reason why the closeout process is not initiated as soon as the contract is physically completed?

Research indicated that the closeout process is an often overlooked aspect of contract administration. Contract closeout had a low priority; the priority was to award contracts and obligate funds. [Ref. 8:p. 10] This question was asked to determine if this "finding" was still valid. Survey results were:

40% Delays caused by limited manpower and low priority;

21% Delays caused by contractor;

17% Delays caused by DCAA;

15% Delays caused by the paying office;

7% Delays caused by other reasons.

Forty percent (40%) of the responses stated that limited manpower coupled with low priority were the major reasons the process is not initiated as soon as the contract is physically completed. Twenty-one percent (21%) stated that the delay was caused by the contractor for various reasons, such as the contractor not submitting the final invoice and waiting for the contractor to finish all responsibilities, e.g., Contract Data Requirements Lists (CDRLs). Seventeen percent (17%) stated that contract closeout was delayed because they were waiting for DCAA to establish final overhead rates and fifteen percent (15%) blamed the paying office for

various reasons, such as inadequate notification. The remaining seven percent (7%) stated several reasons such as: (1) unliquidated balance must be corrected prior to closeout, (2) claims, and (3) no closeout information is available.

The response rate of 21% that stated the contractor was the cause of the delay and 17% that stated DCAA was the cause may, in fact, be misleading. The contractor's reason for not submitting a final invoice may have been due to waiting for DCAA to establish the final overhead rate. If this is the case, DCAA should have a higher percentage and could be ranked second for reasons for closeout delay and the contractor ranked third, instead of vice versa.

2. **Are there any cases where there was a problem in closing out a FFP contract?**

This question was asked to determine if the researcher needed to include FFP contracts as a separate issue in her research of the closeout process. Survey results were:

30% Had no problems with closing out FFP contracts,

70% Had some problems with closing out FFP contracts.

Of the 70% who responded that they had some problems with closing out FFP contracts, the responses were as follows:

33% Problems with the paying office;

20% Problems with Goverment Furnished Property;

12% Problems with funding;

5% Other.

Thirty-three percent (33%) of the 70% cited the paying office as the reason for closeout problems. Such reasons included:

- The notice of final payment is frequently not received.
- Proper documentation from the paying office to closeout the contract is not received so contractors must be contacted for the information.
- The paying office took an unauthorized discount.
- Reconciliation of unliquidated obligations by paying office.

Twenty percent (20%) cited that Government Furnished Property (GFP) was the reason for the closeout problem. Reasons included:

- The mechanics of getting GFP returned and inspected sometimes causes problems.
- When GFP is a part of the contract, often times, no file evidence exists of the status of the GFP.

Twelve percent (12%) stated that funding caused some closeout problems. Reasons included:

- Funds were remaining and research had to be done to determine why.
- Additional funding requirement at the end of the fiscal year.
- Fixed-Priced services generally have a small amount of excess funding that must be investigated and deobligated.

Of the remaining responses that stated a problem in closing out FFP contracts, there was no one clear category that covered the reasons. Reasons ranged from:

- o Claims,
- o Requests for Equitable Adjustments,
- o The contractor's invoice was misplaced.

Since the problems stated above are not unique to FFP contracts, these contracts will not be discussed separately from Cost Reimbursement contracts.

3. **What are the major reasons for delay in closing out contracts?**

Research indicated that the biggest reason for delay in closing out Cost Reimbursement contracts is waiting for DCAA to audit the contractor and determine the final indirect overhead rates. This question was asked to determine if this finding was still valid. Although the question in the survey did not specify Cost Reimbursement contracts, the responses indicated that other than FFP contracts were intended in the response. Many of the responses had more than one reason for the delay in closing out contracts and were ranked accordingly. The survey results were:

33% Inaction by DCAA,

21% Inaction by the ACO,

14% Inaction by the contractor,

10% Reconciling differences between the paying and funding offices,

22% Various other reasons.

Inaction by DCAA was stated as the number one reason for delay by 33% of the respondents while 21% of the respondents stated that inaction by the ACO was the number one reason for delay. Fourteen percent (14%) stated that inaction by the contractor was the number one reason and ten (10%) stated that waiting for differences in records between paying and funding offices to be corrected was the number one reason. The remaining responses had various other reasons as the number one cause for delay, such as:

- o Lack of resources,
- o Unsettled requests for equitable adjustments,
- o Lack of adequate notification,
- o Contract is under litigation,
- o Waiting for difference in GFP records to be corrected.

4. Did you ever have formal training on closing out contracts?

Research indicated that the closeout process is not emphasized during training and many contracting personnel are unaware of any alternate, more efficient methods for closing the contract. Survey results were:

85% No formal training on contract closeout

15% Some formal training on contract closeout.

Eighty-five percent (85%) stated that they did not have any formal training on closing out contracts. The 15% that did receive formal training stated that it was touched upon in their Basic Acquisition course.

D. AREAS IMPACTED FROM CONTRACTS NOT CLOSED OUT IN A TIMELY MANNER.

The Armed Services Pricing Manual (ASPM) states three main reasons why the Government promotes timely closeout of contracts. These reasons are to recover excess funds on completed or inactive contracts, to ensure that the personnel involved with the contract remember what took place and are still available to assist in resolving the issues, and that it is good administrative practice to clean up any loose ends as soon as it is feasible. However, the ASPM and other instructions on the contract closeout process do not state the consequences that occur from delaying contract closeout past the time frames specified in the FAR. The following questions in this section were asked to determine if personnel involved in contract closeout were aware of the impact of overdue contract closeouts and what areas were affected.

1. Have you encountered any problems from untimely contract closeouts?

Contracts that are not closed out within the time frames specified in the FAR can have adverse effects on the

Government. These adverse effects deal with monetary, as well as non-monetary concerns. This question was asked to determine if any personnel had experienced problems due to not closing out the contract in a timely manner and what specific problems occurred from untimely contract closeouts. Survey results were:

29% No problems encountered from untimely contract closeouts.

71% Had problems from untimely contract closeouts.

52% of 71% Monetary problems,

19% of 71% Non-monetary problems.

Of the 71% that responded that they had encountered problems from untimely contract closeouts, 52% had to do with monetary concerns, such as:

- Funds expired and it was difficult to get prior year funding to finalize changes.
- On old (1-3 years) invoices with no record of payment (either contractor or Government), we cannot obtain a decision from legal/other on whether to pay the contractor.
- The customer (requiring activity) loses the ability to spend funds if credits/deobligations are settled in the next fiscal year.

The remaining 19% had non-monetary concerns. Ten percent (10%) cited loss of records and personnel knowledgeable on the contracts as a problem. Comments included:

- Records are no longer available because they have been lost during reorganization or multiple moves from place to place.
- The Contracting Officer's Technical Representatives (COTRs) are no longer here to verify/accept issues, etc.
- Personnel familiar with the contract are no longer working at the command.

Six percent (6%) cited that additional reporting requirements were a problem from untimely contract closeout and the remaining three percent (3%) stated that lack of storage space became a problem.

2. **What areas do you feel are impacted by the failure to closeout contracts on a timely basis?**

This question was asked to determine if people were aware, in general, of any type of impact caused by the failure to closeout contracts on a timely basis. This impact could be to their specific command or to the entire DoD. Many of the responses stated that more than one area was impacted due to the failure of closing out contracts on a timely basis and ranked them accordingly. Survey results were:

46% Increase in backlog.

41% Funding problems,

13% Other areas.

An increase in the backlog was stated by 46% of the respondents as the number one area impacted by untimely contract closeout. Following in second place was recovering of excess funds or other funding problems. Forty-one percent

(41%) of the respondents stated that this was an area impacted by untimely contract closeout. For the remaining 13%, no one category covered the area impacted by the delay in closing out contracts. Comments ranged from:

- Because of the increase in the time period for claims to be submitted, there are more claims.
- Loss of knowledge of the contracts.
- Decreasing support from DLA as contracts become more overaged.

3. Do you know what the "M" account is used for? Are you aware of the recent changes in the "M" account policy? Do you feel that the new "M" account policy will affect the current contract closeout policy?

Under the new legislation, "M" accounts, will no longer be available and the funds now have a time limitation of five years after expiration. Contracts that are not closed in a timely manner are affected by this new legislation because the "M" account will no longer be available to pay obligations for contracts whose funding obligations have expired. This question was asked to determine how informed personnel closing out contracts were concerning policies that affect the contract closeout process. Survey results were:

95% Were knowledgeable of the "M" account.
5% Were not knowldegeable of the "M" account.

93% Were aware of the recent changes in the "M" account policy.
7% Were not aware of the recent changes in the "M" account policy.

22% Felt that the new "M" account policy would not affect the current closeout policy.
78% Felt that the new "M" account policy would affect the current closeout policy.

18% of 78% Positive effect.
60% of 78% Negative effect.

Ninety-five percent (95%) were aware of what the "M" account is used for and 93% were aware of the recent changes in the "M" account policy. Seventy-eight percent (78%) felt that the new "M" account policy will affect the current closeout policy. Only 18% of the 78% that felt the new "M" account policy will affect the current closeout policy felt that there will by a positive impact on the closeout process, such as:

- The closeout process will gain the attention of the contractor, ACO and DCAA.
- Contractors will pay more attention to those low balance contracts and clear their books.
- Contract closeout will get a higher priority.

The remaining 60% felt that there would be a negative impact on the closeout process with the change in the "M" account policy. Some examples of the negative impact include:

- More errors will be made by people rushing to closeout contracts without having all of the current data.
- This will add to an already overworked administration staff.

- o We have no control over the audit and litigation. If we can't speed up those processes, we will have to use current funds.
- o Payment difficulties will increase for contracts in litigation.

4. Have you ever been able to deobligate funds when closing out contracts?

An audit report [Ref. 9:p. 8]. indicated that many ACOs did not complete funds reviews and deobligate excess unliquidated obligations because they did not consider the process to be a high priority or the amounts to be significant. This question was asked to determine if deobligated amounts could be significant and is discussed in this section because untimely contract closeout affects the ability to deobligate funds. Survey results were:

70% Had deobligated funds in the past when closing out contracts.

30% Have never deobligated funds when closing out contracts.

Seventy percent (70%) stated that they have deobligated funds in the past. Examples of amounts of deobligated funds ranged from 0.02% to 78.6% of the contract amount; dollar values ranged from $692.00 to $10,649,100.00.

E. WHO CLOSES OUT CONTRACTS?

The numerous instructions that describe the policy and procedures of closing out contracts do not state whether a Contract Specialist GS-1102 or a Procurement Clerk, GS-1106

should close out the contract. In addition, contract closeout is not specified as a critical job element in either the Contract Specialist, GS-1102 series or the Procurement Clerk, GS-1106 series. The following questions in this section were asked to determine who should close out contracts.

1. **Who closes out contracts?**

The duties of Contract Specialists vary among the different commands in DoD. Contract Specialists may be assigned to either the pre-award or post-award function of the procurement process, or they may retain the contract throughout the entire procurement process. Procurement Clerks may only assist Contract Specialists in some commands, while in other commands, they may be held responsible for certain tasks. This question was asked to determine what type of personnel is utilized to close out contracts.

42% The Contract Specialist who administers the closeout of the contract.

26% One or more Contract Specialists are dedicated to closing out contracts.

10% The Contract Specialist who awards the contract also closes the contract.

5% The type and complexity of the contract determines who closes the contract.

17% Other than Contract Specialists close out the contracts, such as Procurement Clerks, Navy Reserve Units, or the PCO.

2. If you do not have a Contract Specialist dedicated to closing out contracts, do you feel that there should be one?

This question was asked to determine how personnel perceived the closeout process; whether or not it should be a specialized position. Survey results were:

43% There should be a dedicated Contract Specialist for closing out contracts.

57% A dedicated Contract Specialist for closing out contracts is not needed.

Forty-three percent (43%) of the respondents felt that a Contract Specialist should be dedicated to closing out contracts. Respondents in this category felt that the closeout process needed special training and was more difficult than most people perceive. Some comments included:

- A dedicated specialist would increase productivity since s/he would not have to re-learn the closeout process for each contract s/he closes out.
- Contract closeouts would not take a lower priority due to working on more urgent active contract matters if there was a dedicated specialist for contract closeout.
- A dedicated specialist for the closeout process would assist in coordination and communication with other agencies involved in the process. S/He would be a constant Point of Contact with the other agencies.
- S/He could monitor any changes in procedures and personnel that affect the closeout process in the other agencies.

Those respondents that did not feel that their should be a contract specialist dedicated to closing out contracts had a wide range of reasons. These reasons included:

- The closeout process is very simple and can be handled by a clerk.
- There are many issues involved in the closeout process and there can be no one situation for closing out a contract, hence no one person should do it.
- The closeout process can be very frustrating and this pattern of frustration must be broken by other facets of a job.
- Insufficient workload.
- Manpower not available to have one person dedicated to closing out contracts.

The majority who did not want a dedicated contract closeout specialist stated that many issues in the closeout process are best accomplished by someone working with the contractor on a day-to-day basis and is familiar with the contractor and his operations. This familiarity comes from administering the contract.

3. **What type of background should the Contract Closeout Contract Specialist have? Why is it important that the Closeout Specialist have these qualities? If there was a Contract Specialist dedicated to closing out contracts, what GS level should he/she be?**

These questions were asked to determine what type of person and background is needed for closing out contracts.

Survey results for the type of background a Contract Closeout Specialist should have were:

6% The Contract Closeout Specialist needs little training.

63% The Contract Closeout Specialist needs only the required Contract Specialist, GS-1102, courses.

31% The Contract Closeout Specialist needs more education than the required courses of the GS-1102 series.

Six percent (6%) felt that the person closing out contracts needed very little training. A Procurement Clerk would be able to handle the position, he/she did not need to be a Contract Specialist. One to two hours of training was sufficient to ensure knowledge of contract forms/documents needed for the file.

Sixty-three percent (63%) felt the person who would close out the contract should be a Contract Specialist, GS-1102 series. The specialist should have all of the courses required of the GS-1102 series and at least two years experience. This experience should include pre-award and post-award functions.

The remaining 31% felt that the person closing out the contract should have more education and background than what the GS-1102 series offers. A specific area of knowledge that many respondents felt was important for the Closeout Specialist was Accounting (financial and cost accounting).

Other background experiences the respondents felt were necessary for the Closeout Specialist were:

- The ability to interpret legal documents (not just contracts), research and reconciliation techniques and skills and strong communications skills.
- It would be very beneficial to possess at least some knowledge and experience in a wide variety of areas such as, material accountability, Government and contractor financial accounting processes and audit agency responsibilities.
- Need to have negotiation and litigative experience.

Of those respondents that felt that the Closeout Specialist should be in the GS-1102 series, survey results for the reasons why it was important that the Closeout Specialist have this background were:

83% GS-1102 background needed to process more efficiently and effectively.

9% GS-1102 background needed to be able to discuss matters with upper management and other involved in the process.

8% GS-1102 background needed to ensure proper closeout of contracts.

Eighty-three (83%) felt that a procurement background was necessary so that the contract closeout would be processed more efficiently and effectively. Specific reasons included:

- One needs to be familiar with and understand contractual requirements to be able to recognize and resolve any problems associated with the closeout process.
- By being knowledgeable of the process, some problems can be averted, e.g., missing paperwork, and the specialist could work independently.

- One cannot pick up a contract and close it without understanding how the contract works, who does what and when.
- With knowledge of the procurement process, the Closeout Specialist would understand the importance of closing out contracts and the correlation of the closeout process with the total administrative functions.

Nine percent (9%) felt that procurement training was necessary to be able to discuss matters with upper management, payment officers, and contractors and to better represent the Government in matters such as the negotiation of claims. The final eight percent (8%) felt that procurement training was necessary to ensure that the contract was properly closed out in accordance with the FAR.

Figure 3 shows the survey results concerning the appropriate GS-level for the Contract Closeout Specialist. Only 4% of the respondents felt that a Procurement Clerk at the GS-4/6 level could accomplish the effort adequately. The remaining 96% felt that a Contract Specialist, GS-1102 series, was required for the position. Of the 96%, 19% felt a GS- 5/7 could closeout

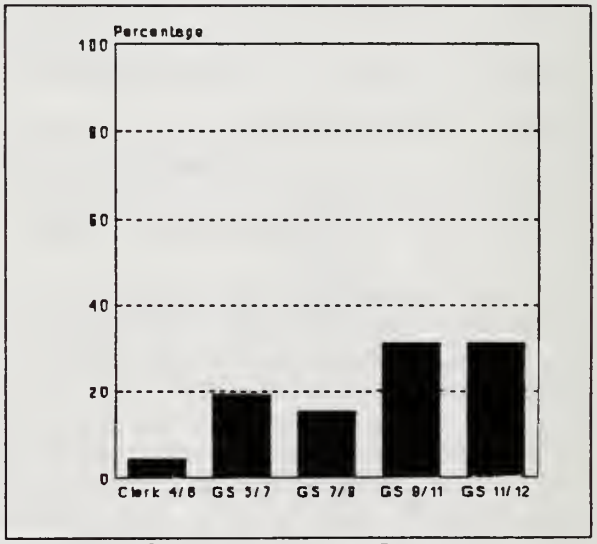

Figure 3: GS-level for a Contract Closeout Specialist

the contracts adequately, 15% felt a GS-7/9 was adequate, 31% felt a GS-9/11 was needed and 31% felt a GS-11/12 was needed.

F. WHAT CAN BE DONE TO IMPROVE THE CURRENT PROCESS.

Research has demonstrated that there are problems with the current contract closeout process. The questions in this section were asked to determine what changes could be made to improve the current process and whether or not common recommendations could be identified within the DoD commands.

1. How can contract closeouts be managed more efficiently?

Research has indicated that there is no methodology or strategy for closing out contracts. Instead, there are only sporadic attempts to close out contracts when the need arises. This question was asked to determine what could be done to manage contract closeouts more efficiently. Survey results were:

30% More resources,

23% Increase priority for closing out contracts,

13% Automate the closeout process,

9% Better coordination between different agencies,

25% Other.

Thirty percent (30%) of those that responded to this question felt that more resources (manpower) were necessary to be able to manage contract closeouts more efficiently.

Several in this category felt that a team concept would be beneficial where a team would be dedicated to closing actions. Several comments included:

- A team or section whose only function is contract closeout, deobligations, etc. so that the entire process can be managed.
- Closeouts are just one aspects of contract administration that is woefully undermanned.
- Make contract closeout a separate administration branch and enough people to handle the job efficiently.
- More time and people closing out contracts.
- More manhours devoted to the effort.

Twenty-three percent (23%) of the respondents felt that contract closeout should be given a higher priority - both in the procurement process and in performance appraisals. Several responsdents stated that "management should place a higher priority on the allocation of personnel resources to the closeout process."

Two comments concerning increasing the priority of contract closeout as a job function were:

- Closeouts should be identified as a critical job element and mandated that a particular number of closeouts will be handled per week, month,....
- The closeout process should be treated as a major job function, thus personnel should receive better training in the process.

Thirteen percent (13%) felt that automation and computer generated reports to track the closeout process would assist in managing the closeout process more efficiently.

Nine percent (9%) felt that better coordination and communication between the different agencies were important in managing the closeout process. The remaining twenty-five percent (25%) of the responses had various suggestions for managing the closeout process. Suggestions included:

- DCAA should act on the audits quicker; DCAA should give higher priority to the settlement of overhead rates.
- Identify systemic problems delaying closeout and revise procedures.
- When the contract is physically completed, the contractor should have a certain matter of time to submit the final voucher with closing documents.
- In Cost Reimbursement contracts, eliminate the need for final audits, estimation techniques could be used and final figures could be negotiated by a closeout officer.

2. **Do you feel a reporting system would provide better visibility of problem areas?**

Research indicated that a reporting system provides better visibility over problem areas at higher management levels. This question was asked to determine how people felt about this "finding". Survey results were:

68% Yes, a reporting system would provide better visibility of problem areas.

32% No, a reporting system would not provide better visibility of problem areas.

Sixty-eight percent (68%) felt that a reporting system would provide better visibility of problem areas while 32%

felt that it would not provide better visibility. Of the 32%, some comments include:

- Problems are already known and visible.
- More visibility would just mean more reports to fill out without any improvement in problem areas.

3. Do you feel that contract closeouts need to have more upper management visibility? Why?

Research indicated that higher management visibility would help correct some of the problems that occur with contract closeouts. This question was asked to determine if people felt that upper management visibility would be beneficial. Survey results were:

62% Yes, contract closeout needs more upper management visibility.

38% No, contract closeout does not need more upper management visibility.

Sixty-two percent felt that contract closeout needed more upper management visibility. Thirty-three percent (33%) of the 62% felt the reason an increase in upper management visibility was needed was to increase the priority of the closeout process. An increase in the priority would:

- Enable Contract Administration to obtain required resources (Management Information Systems (MIS), people) to process closeouts in a timely fashion.
- Increase the staffing levels for administrating the process.

Other reasons cited for an increase in upper management visibility were:

- The deobligation of funds - because excess funds on the contracts can be deobligated and sent back to the Treasury. (8%)
- Upper management should be made aware of obstacles encountered in dealing with other Government agencies and contractors. (6%)
- To clarify the importance of the relationship of post-award functions to pre-award functions. (6%)
- Employees put emphasis on those areas their supervisors/managers put emphasis on and that supervisor/manager should follow through to insure performance. (6%)
- With upper management support, systemic problems can be identified and proper emphasis can be placed on correcting them. (3%)

The remaining 38% felt that upper management visibility was already present and more involvement was not necessary because "they only add to the problem by requiring excess reports that require time away from an already overloaded workload."

4. Would you like to utilize the Quick Closeout procedure more often?

This question was asked to determine if people were willing to use alternate methods to close out contracts. Survey results were:

72% Yes, I would like to utilize the Quick Closeout procedure more often.

28% No, I would not like to utilize the Quick Closeout procedure more often.

Seventy-two percent (72%) stated that they would like to utilize the Quick Closeout procedure more often. Their reasons had to do with being more efficient, e.g., to save time, reduce cost, deobligate excess funds and reduce backlog.

The remaining 28% were reluctant to increase the use of the Quick Closeout procedure for various reasons. Some reasons are:

- ...afraid something could be missed with the Quick Closeout procedure.
- There might be a tendency to abuse the Quick Closeout procedure resulting in a loss to the Government.
- One must be careful of setting precedent.

5. Should the limit for the Quick Closeout method be increased?

The current limit for Quick Closeout is 15% of the total indirect cost incurred on the contract or $500,000, whichever is less. This question was asked to determine if people felt the limit for Quick Closeout should be increased. Survey results were:

43% Yes, the limit for Quick Closeout should be increased.

57% No, the limit for Quick Closeout should not be increased.

Forty-three percent (43%) felt that the limit for the Quick Closeout method should be increased. Many of the responses did not state to what limit Quick Closeout should be

increased. The following are the values for those that did express a limit:

- It should be limited to contracts with small dollar balances or to instances where total unsettled indirect costs applicable to any one DoD contract does not exceed $750,000.
- $1 Million.
- 15% of the total indirect cost incurred on the contract without a dollar limit.
- 50% of the total indirect cost incurred on the contract without a dollar value limit.
- There should not be a limit. It should be a Contracting Officer's call based on brief negotiations. If negotiations do not result in a fair and reasonable agreement, then wait for the final audit to be completed.

6. **Should bilateral agreements be used more frequently?**

This question was asked to determine if people were willing to use alternate methods for closing out contracts. Survey results were:

70% Yes, bilateral agreements should be used more frequently.

30% No, bilateral agreements should not be used more frequently.

Seventy percent (70%) felt that this practice should be used more frequently to make the closeout process more efficient. Some respondents felt that there should be some conditions on the use of bilateral agreements, such as:

- ... as long as there was historical data to support the established rates.
- ...as long as the contractor agreed to this practice and it was in compliance with the FAR.

7. **Should there be a specific time frame for the contractor to submit his final invoice? If so, should there be a penalty if he/she does not submit it in the specified time period? What should be the penalty/consideration?**

Research indicated that the time frame for a contractor to submit his final invoice is not clearly delineated and there is no incentive (or disincentive) for a contractor to submit his final invoice in a timely manner. These questions were asked to determine if a time frame should be delineated. Survey results were:

85% Yes, there should be a specific time frame for the contractor to submit his final invoice.

15% No, there should not be a specific time frame for the contractor to submit his final invoice.

Eighty-five percent (85%) felt that there should be a specific time frame for the contractor to submit his final invoice; however, none specified a time limit.

Survey results concerning whether or not the contractor should be penalized if s/he does not submit the final invoice in a specified time period were:

69% Yes, the contractor should be penalized.

31% No, the contractor should not be penalized.

Sixty-nine percent (69%) felt that there should be a penalty if the contractor does not submit the final invoice in the specified time period. There was a wide variety of penalties specified by the respondents, but no majority agreed on a

common penalty. Some respondents stated that a percentage of the withheld amount or a percentage of the final invoice should be the penalty, with the percentages ranging from one percent to ten percent. Other respondents stated that the penalty should be similar to interest rate penalties. Other penalties include:

- Loss of entitlement, just like the statute of limitations.
- Contractors that fail to submit their final invoice and other pertinent closeout documents within the specified time period should be considered candidates for the Contractor Improvement Program (CIP) and placement on the Contractor Alert List (CAL). Also, the ACO should consider non-contractual remedies, such as inclusion of comments in preaward surveys and progressive escalation of procurement agency management involvement in parallel with DPRO management involvement.
- There should be a unilateral Government determination without disputes alternative.

Of the remaining 31% that stated that there should not be a penalty or consideration, the common reason was that the penalty would not be enforceable. Some comments included:

- This is not a viable process. The Government would find itself involved in countless claims as a result of lost invoices.
- In my experience, the penalty is never enforceable, so why bother.
- This would be considered punitive and therefore probably unacceptable.

8. Should the payment responsibility be transferred to the funding office to eliminate discrepancies in the records between the two offices?

Previous research indicated that reconciling differences in records between the paying offices and the funding offices was a reason for the delay in closing out contracts. One recommendation to eliminate the delays was to transfer the payment responsiblity to the funding office. This question was asked to determine how people felt about this recommendation. Survey results were:

71% No, the payment responsibility should not be transferred to the funding office.

29% Yes, the payment responsibility should be transferred to the funding office.

Seventy-one percent (71%) felt that the payment responsibility should not be transferred to the funding office to eliminate discrepancies in the records between the two offices. The only reasons cited were:

- They do not have trained staff to handle the function.
- We need the checks and balances with the separation of the two offices.
- We have problems now with units not certifying invoices who are funding administrators.

G. SUMMARY

This chapter presented the data from the survey conducted by this researcher. Common problems and reasons for these problems were identified. In addition, suggestions for improvement were recommended. The next chapter will analyze the data presented in this chapter to determine what can be done to improve the contract closeout process.

IV. ANALYSIS OF DATA

A. INTRODUCTION

This chapter will review the data presented in Chapter III and analyze the significant data elements. The following analysis of the survey results was supplemented by interviews and examination of applicable literature. The analysis will be in five areas:

- Current practice of closing out contracts.
- Reasons for contract closeout problems.
- Impact of untimely contract closeouts.
- Who should close out contracts.
- What can be done to improve the current process.

B. CURRENT PRACTICE OF CLOSING OUT CONTRACTS

An analysis of the data indicated that contract closeout policies and procedures stated in the FAR, DFARS, and other instructions are not being utilized or followed to their fullest extent. Specific issues related to initiating the contract closeout process, meeting FAR closeout time frames, and use of alternate closeout methods will be discussed in the following sections. Additionally, the data received have illustrated that DoD commands do not have a uniform system for tracking and reporting contract closeouts

and that the current practice for closing out contracts is a little different within each command.

1. Initiating the closeout process.

Research has shown that many contracting offices do not start closeout actions until the prescribed closeout time frames are reached or exceeded. [Ref. 10:p. 10] Because 47% of the respondents did not state any time frame in their response, the researcher could not validate this finding. However, the results from the survey did demonstrate that only 37% of the respondents initiate the closeout process in accordance with DoD's policy for closing out contracts. This policy states that contract closeout should be initiated as soon as possible after physical completion of the contract.

The overall contract closeout process is made up of numerous individual actions. Each of these actions must be promptly executed to allow contract closeout to be completed on time. A delay in any one of these actions can cause the closeout process to extend beyond its required time frame stated in the FAR. Thus, by delaying the initiation of the closeout process, the remainder of the process is further delayed.

2. Time frame for the closeout process.

Survey results demonstrate that, using the current practice of the various DoD commands, the time frame stated in the FAR is attainable for FFP contracts. However, this is not

the case for Cost Reimbursement contracts. Survey results show that 96% of the respondents do not close out Cost Reimbursement contracts in the required time frame.

FFP contracts do not involve pricing actions or as many administrative actions as compared to Cost Reimbursement contracts at closeout. Although the closeout process is not initiated as soon as the contract is physically completed, offices are still able to closeout FFP contracts within the required time frame. On the other hand, Cost Reimbursement contracts require several pricing actions and additional administrative actions before the contract can be closed out. These additional requirements extend the time needed to complete the closeout process. Some of these actions are: (1) obtaining the contractor's closing statement, (2) settling prior year indirect costs rates, and (3) ensuring that a final audit for indirect costs is completed by DCAA. Many of these actions are outside the control of the activity.

3. **Utilizing alternate methods to close out contracts.**

The FAR, DFARS, and various instructions allow for use of alternate methods for closing out contracts, when conditions allow. These two methods are the Quick Closeout procedure and bilateral agreements. The survey results demonstrated that the majority of the respondents are either not utilizing or are unaware of these alternate methods.

As discussed in Chapter II, these two procedures can be utilized when the contract is physically complete and closeout will be delayed pending DCAA's final indirect costs determination. The Quick Closeout procedure and bilateral agreements are used to speed up the process of closing out Cost Reimbursement contracts.

The Government might be able to obtain lower rates than could be negotiated using the Quick Closeout procedure or a bilateral agreement by waiting for DCAA to accomplish the final overhead audit. However, the Government may be required to wait several years and would not receive any money from the contractor until after the audit is completed and the final price is negotiated. The time value of money must be considered to determine whether to use the Quick Closeout method or not. Another consideration is the fact that most contracting officers will keep more than enough funds obligated to cover any final overhead rate settlement. Therefore, the sooner the contract is closed the sooner any excess funds can be deobligated and used to cover other obligations. Again, the time value of money must be considered to ensure that the funds are used most effectively.

4. Tracking and reporting systems.

Tracking and reporting systems are types of management controls that could assist in managing the contract closeout process. A tracking and reporting system can identify problem

areas, display the status of contracts and set milestones for contract closeout. The survey results showed that DoD does not have a uniform system for tracking or reporting the closeout process. Some commands do not have an identifiable tracking or reporting system for the contract closeout process.

Those respondents that have an automated system which tracks contract closeout indicate that there is a duplication of effort with each command developing its own computerized program for tracking and reporting the process. With the numerous computerized programs, commands cannot access the records of other commands because of the different formats and types of data being utilized.

There are three primary benefits of using a uniform tracking system and being able to access the records of other commands. First, it would decrease the duplication of effort involved with inputting data into the system. Much of the data used by different commands are identical even though the use of the data differs. For instance, each command inputs general contract information such as the total amount of contract award and the physical completion date. With a uniform system, the general contract data would only have to be input once and could be accessable to all of the commands that need that information.

Second, the decrease in the duplication of effort would reduce the chances of input error. Each command that inputs data separately increases the chances of error. For example, the paying office may transpose the numbers of the total amount of a contract or for the same contract, the administration office may input the wrong physical completion date. Such errors result in two different sets of data for a single contract. With a uniform system, the information would only have to be input once resulting in one set of data.

Finally, the uniform system would speed the contract closeout process by eliminating the time wasted in correcting discrepancies between commands. It takes time to determine the causes of the discrepancies and contracts cannot be closed out until the records are reconciled.

C. REASONS FOR PROBLEMS

The survey identified common explanations for problems in the contract closeout process. Five areas were most frequently identified as the reasons for problems. These areas are:

- Low priority and limited manpower,
- Inaction by the contractor,
- Inaction by DCAA,
- Inaction by the ACO, and
- Reconciling differences between the paying and funding offices.

The survey results from the question concerning contract closeout training demonstrate that there is a lack of training in the closeout area. The researcher believes that this is also a significant reason for the problems in the contract closeout process.

1. Low priority and limited manpower

Low priority and limited manpower were the number one reasons provided in the survey for not initiating the closeout process as soon as the contract was physically completed. These two reasons go hand-in-hand; management allocates personnel to functions with a high priority, whereas a function with a low priority does not receive the attention and personnel resources needed to complete the job.

Contract closeout is an often overlooked aspect of contract administration. After the final delivery of goods and/or services is accepted, some contract managers believe that a contract is closed. [Ref. 11: p. 2] In addition, once final deliveries are made and accepted, the level of interest shifts from completed contracts to the award and obligation of new contracts or to the performance of active contracts. This shift of interest and responsibility was found throughout the DoD activities. [Ref. 12:p. v]

One reason for the low priority of contract closeout can be traced to the methodology that the Naval Supply Systems Command (NAVSUP) uses to allocate financial resources. This

methodology is called the Productive Unit Resources (PUR) program. A description of the PUR program is as follows:

> Funding of an activity's workload is established by a measurable unit or output (productive unit), dividing total costs of the workload by the number of productive units to obtain a productive unit rate, and multiplying the estimated future annual productive units by the productive unit rate to determine the total annual funding budget required. Each budget request is therefore based on the forecasted workload, and does not rely on previous fiscal year budgets. [Ref. 13:p. 8]

For large contracts (over $25,000) organizations accumulating productive units are directly linked to the awarding of a contract under the PUR Program. A 1988 study by Ellsworth Associates, Inc. (EAI) concluded that the inception of the PUR system impacted contract administration by shifting the hours spent on contract administration to other functions in the procurement process. [Ref. 14:p. 13] With this shift, came the shift in personnel and priority to the function of awarding contracts.

2. Inaction by the contractor

Inaction by the contractor was the number two reason for not initiating closeout as soon as it is physically completed and the number three reason for delay in contract closeout.

Similar to the Government, closing out contracts is not one of the contractor's highest priorities. Contractors have little incentive to try to accelerate the process and achieve more timely contract closeout if they do not

anticipate receiving more money. The contractor places more importance on being awarded contracts rather than on the administrative paperwork involved in the closeout of the contracts.

In addition, there may be other reasons for the delay in submitting the final invoice. For instance, in Cost Reimbursement contracts, if the contractor was overpaid on the contract by the Government, s/he can delay repayment by delaying submission of the final cost proposal and subsequent negotiation of the final price. By waiting for the Government to request the proposal s/he may be able to delay repayment for months (even years) [Ref. 15]. There is no incentive or disincentive for the contractor to be timely with his/her final invoice.

3. **Inaction by DCAA**

Inaction by DCAA was the number one reason for the delay in the contract closeout process and the number three reason for not initiating closeout as soon as the contract is physically completed. Contract closeout for Cost Reimbursement and Fixed-Price Incentive contracts are affected by the inaction by DCAA; however, DCAA does not affect the contract closeout process for FFP contracts.

Overhead rates must be audited by DCAA and negotiated by the ACO before Cost Reimbursement and Fixed-Price Incentive contracts can be closed-out (with the exception of those

contracts that are eligible for the Quick Closeout procedure). DCAA is several years behind in establishing final indirect rates on physically completed contracts [Ref. 16].

DCAA's reason for its tardiness is twofold. One is a lack of manpower. With the budget cuts, DCAA must get by with less auditors. With less auditors, DCAA takes longer to fulfill all of its duties. The manpower problem is intensified by the high turnover rate of personnel. A DCAA auditor stated that, "Not only do we have less auditors, but the auditors are inexperienced and need training and assistance in auditing contractors."

The second reason for DCAA's tardiness in determining the final indirect cost is the low priority that is placed on final overhead audits. Determination of overhead rates is one of their lowest priorities [Ref. 17:p. 6]. Similar to the procuring activities, more importance is placed in getting contracts awarded and funds obligated than in determining final overhead rates and de-obligating funds.

4. Inaction by the ACO

Inaction by the ACO was the number two reason for delay in the contract closeout process. This reason can be tied in with the first reason of low priority and lack of manpower. Once final deliveries are made and accepted, the level of interest shifts from the completed contracts to the award and obligation of new contracts or to the performance of

active contracts. Because of the higher priority of active contracts, the ACOs allocate their attention and available manpower to these duties resulting in delays in the contract closeout process.

In addition to the above, a review by the Army of the contract closeout process revealed that there is a general lack of emphasis by all activities involved in contract closeout [Ref. 18:p. vi]. The ACO is responsible for coordinating all organizations (the contractor, the requiring activity, DCAA, if applicable, etc.) involved with the contract closeout process and ensuring that each has completed their tasks and submitted the appropriate contract completion forms. Any delay from the other activities will ultimately delay the ACO in completing the contract closeout process. The ACO may have initiated the process in a timely manner, yet cannot complete the process due to the inaction of another activity. Thus, it may not be the ACO's inaction that is delaying the contract closeout, but the inaction of another activity.

5. Reconciling differences between the paying and funding offices.

The survey results indicated that reconciling differences between the paying and funding offices was the number four reason for both the delay in contract closeout and for not initiating closeout as soon as physically completed.

In the majority of Government contracts, Defense Finance and Accounting Service (DFAS) Columbus is the paying office. If DFAS's records do not agree with the funding office records, they must determine the reason for the difference. Many times the difference is due to one agency not receiving the same information as the other [Ref. 19]. It takes time to determine the cause of the discrepancy and the contract cannot be closed out until DFAS's records and the funding office's records match.

6. **Lack of training**

Eighty-five percent (85%) of the respondents stated that they did not have any formal training on the contract closeout process. Again because of its low priority, the closeout process is not emphasized during training and many contracting personnel are unaware of alternate, more efficient methods for closing the contract.

Currently, the contract closeout process is taught as a segment in the Management of Defense Acquisition Contracts (MDAC) Advanced Contract Administration course. There is no separate course for the contract closeout process or any subsequent refresher training. Lack of training increases the potential for delay because contract personnel are forced to learn about contract closeout "on the job" and require extra time to obtain information on the contract closeout process from regulations and other sources.

D. IMPACT OF UNTIMELY CONTRACT CLOSEOUTS

The survey results indicated that personnel were aware of some adverse affects to the Government due to untimely contract closeout. The responses also provided a good indication of the consequences caused by untimely contract closeout. This section will analyze the consequences of untimely contract closeouts.

1. Monetary Impact

The survey results indicated that the respondents were aware of funding problems that come with expiration of funds due to untimely contract closeout but were not aware of the significance of the amount of funds that are unliquidated and available for deobligation. Two areas impacted by untimely contract closeout, not mentioned by the respondents to the survey, are increased interest payment to the U.S. Treasury and loss of Government Furnished Property (GFP).

a. Expiration of Funds.

Ninety-five percent (95%) of the respondents were aware of the "M" account and 93% were aware of the new legislation; however, the comments relating to its impact to the contract closeout process showed no indication of the significant consequences of the delay in contract closeout and the expiration of funds.

Historically, pursuant to Public Law 84-798 dated 25 July 1956, for two years after an appropriation's period of availability, the fiscal year identity of an appropriation was maintained in accounting and financial reports and unobligated balances were available only for obligation adjustments. During this period, the appropriation was commonly termed "expired". At the end of the two year "expired" period, the appropriation was termed "lapsed". The appropriation's net balances of unpaid obligations and uncollected reimbursable orders were merged with balances of the same appropriation's successor accounts into what was called the "M" account. These "M" accounts were available indefinitely for the liquidation of obligations. [Ref. 20:p. 2]

Under the new legislation, Section 1405 of the National Defense Authorization Act for Fiscal Year 1991 and Section 8080 of the Department of Defense Appropriation Act of 1991, the "M" account and other merged surplus accounts (used for continued funding of contract payments and adjustments after appropriations have expired) have been abolished [Ref. 21:p. 6]. In their place, Congress established a system in which all "fixed" appropriations (i.e., appropriations available for a definite period, whether annual or multiple-year) can be used to pay or make adjustments to existing obligations for only five years after their availability for obligation expires [Ref. 22:p. 7]. Obligations of contracts

outstanding after the five-year period must be charged to a current appropriations account. The cancellation of balances currently in "M" accounts and the limitation of funds to a five-year "life span" after expiration means the "old" money will no longer be available to pay obligations under "old" contracts [Ref. 23:p. 9]. With the decreasing budget, funding current obligations have become difficult enough for agencies without the increased burden of having to deplete their limited appropriations for their current needs to cover previous years' contract obligations.

In these times of decreasing budgets, the deobligation of funds has increased in importance. The Government needs to recover excess funds on physically completed or inactive contracts and make them available for further program use. The following are some examples of the significant amounts of unliquidated obligations on contracts that are physically completed.

- A recent Air Force audit identified $14.9 million in 28 contracts of unliquidated obligations. [Ref. 24:p. 7]
- A DCMAO report on physically completed contracts indicated that $7,677,868.00 of $91,790,259.00 was unliquidated obligations. That is 8.36% of the obligated amount. [Ref. 25:p. 571]
- A Naval Air Systems Command (NAVAIR) report stated that $3,717,684 of $1,508,301,280 were unliquidated obligations. [Ref. 26]

Unused and unneeded funds can be lost unnecessarily if a delayed contract closeout causes deobligations to occur after the funds have expired. In a recent Army audit, excess funds, totalling about $1.5 million from five contracts, were not deobligated. Because of the untimely contract closeouts, deobligations were delayed for up to 54 months, and the excess funds could not be reused [Ref. 27:p. 18]. The more rapid the closure process, the earlier excess funds can be released to other Government projects. The following are some examples of the significant amounts that were deobligated during contract closeout:[1]

- A NAVAIR report stated that $29,510,000 was deobligated from $543,126,000 of unliquidated obligations of FY 86 APN appropriations. That is 5.43% of the total amount reviewed. [Ref. 28]

- A Contract Closeout report from Hill Air Force Base stated that for the month ending August 1991, 18 contracts were completed and $116,029.02 was deobligated. Total dollars deobligated since November 1987 is $35,040,574.87. [Ref. 29]

- A report from Naval Ocean Systems Center (NOSC), San Diego, CA stated that $1,633,309 has been deobligated between July and December 1991. [Ref. 30]

- Not all contracts have funds to deobligate when closed out, however a significant amount still emerges from the average. A report from Armstrong Data Services demonstrates that $675,597 of $23,569,662 (2.87% of the total amount of the contracts closed out in March 1990) was deobligated. [Ref. 31:p. 3]

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[1]Because the amount of deobligated funds are usually not tracked and reported, the researcher received these data in a variety of formats. Although the deobligated funds are compared to different totals, the amounts are still significant!

- Of the data received by the researcher, deobligated funds averaged 10.48% of the total contract amount. [See Appendix B for data.]

b. Unnecessary Interest Costs to the U.S. Treasury.

Delayed contract closeout can result in unnecessary interest costs to the U.S. Treasury if the excess payments to contractors are not recovered in a timely manner. There are several reasons why overpayment to the contractor occurs such as failure to limit progress payments to the limits established in current regulatory guidance and simple error. An Army audit estimated that prompt contract closeout could reduce $40 million worth of overpayment to contractors by 25 percent (25%) or $10 million. Assuming the Government pays six percent (6%) interest on the national debt, this could result in a reduction of interest payment of $600,000 per year or $3,000,000 for five-years [Ref. 32:p. 16]. By not closing out these contracts and recovering the overpayments, the DoD is adding to the national debt. Overpayments become an interest-free loan to contractors; and they have little incentive to closeout the contract and repay the overpayment. Recovery of other amounts owed to the Government by contractors can also be delayed or not fully identified when contract closeout is delayed.

c. Loss of Government Furnished Property (GFP).

Delayed contract closeout can cause Government furnished property to unnecessarily stay in the possession of

contractors and increase the potential for loss of the property. In the Army audit mentioned above, recovery of more than $930,000 worth of Government furnished property was delayed for up to 53 months because of the delayed contract closeout. When the property is not in Government control, the value of the Government property is put in the contractor's plant and there is the potential for unnecessary acquisition of other similar property.

2. **Non-monetary impacts**.

The survey results indicated that the respondents felt that an increase in backlog was a major non-monetary consequence of untimely contract closeout. Respondents to the survey were aware that the delay in contract closeout impaired the availability of records and personnel. Another area that is impacted by the delay of contract closeout is the discovery of fraud or waste. This area was not mentioned by the respondents to the survey.

a. Increase in Backlogs.

Delays in the closeout of contracts create work backlogs in contracting offices. These backlogs can lead to the disruption of normal operations when intensive efforts are needed to clear the backlog. The intensive effort is usually accompanied by a very short time span to clear the backlog. This can lead to operating errors and internal control failures. To clear the backlog, some contracting offices will

have to divert personnel from other contracting functions and perhaps use extensive overtime. This type of effort, however, could cause customer support to suffer and could also cause other problems if normal internal controls are bypassed in an effort to clear the backlog [Ref. 33:p. 8]. Aside from trying to clear the backlog, untimely contract closeouts create an additional administrative effort, such as updating and completing overage reports, just by having to maintain these open contracts.

b. Availability of Personnel and Records.

Contract closeouts need to be prompt to ensure that the personnel involved with the contract remember what took place and they, and the records, are still available to assist in resolving the issues. By not obtaining timely settlement of the unallowable cost issues in Cost Reimbursement contracts, the Government is losing, as time passes, the corporate knowledge of personnel familiar with the contract's terms, conditions and history. This weakens the Government's position in any future litigation action. [Ref. 34:p. 2]

c. Detection of Fraud or Waste.

Fraud or waste is often found during contract closeout. Detection and correction of problems such as contractor cost mischarging and defective pricing is delayed when closeout is untimely. In an Army review, the Vice Chief

of Staff stated that incorrect cost charging by a contractor had occurred during the mid-to late 1970's, but was not discovered until early in 1985 because the contract closeout was late. Delays in detecting such problems could be perceived as an attempt to coverup the problems. [Ref. 35: p. 3] In addition, if some form of fraud or waste is eventually found by the closeout process, management could be accused of improprieties. Delay in closeout could give the appearance of an improper action by the Government. Personnel from outside the defense acquisition community may perceive a delayed contract closeout as an attempt to cover up acquisition and contracting problems. [Ref. 36:p. 8]

E. WHO SHOULD CLOSE OUT CONTRACTS?

It is evident from the survey results that the majority (94%) of the respondents feel that a Contract Closeout Specialist should be in the GS-1102 series. However, because of the differences in the types of contracts, their complexity and differing amounts of workload that each command had, the survey results on whether or not a dedicated Contract Closeout Specialist is needed were ambiguous. A respondent may have provided a negative response because of his command's insufficient workload to keep the Closeout Specialist busy,

rather than because of a perceived need of specialized training and knowledge to efficiently close out cost type contracts.

Survey results for the type of background a Contract Closeout Specialist should have reflects the growing trend that the Contract Specialist, GS-1102 series, is not an administrative position, but a position that requires experience, education and training to assist in the analysis and decision-making involved in the contract closeout process. These qualities are essential to process contract closeouts more efficiently and effectively, understand contractual requirements and to recognize and resolve any problems associated with the closeout.

F. ACTIONS TO IMPROVE THE PROCESS

The most fundamental process that shapes any organization consists of dividing the work and responsibility, coordinating the divided effort, and providing the essential information to enable people to do their part of the total job [Ref. 37:p. 482]. The survey results provided some insight on how the fundamental process of contract closeout can be improved.

1. How can the contract closeout be managed more efficiently?

As mentioned in Chapter III, research has indicated that there is no methodology or strategy for closing out contracts. This lack of a coherent plan has lead to the erratic application of closeout procedures and has reduced the contract closeout process' efficiency and effectiveness. A strategy or plan for the contract closeout process is needed to focus on what should be done to improve its performance [Ref. 38:p. 7].

The survey results indicated that there were several areas that could improve the performance of the contract closeout process. These areas include: (1) increase in priority, (2) more resources (manpower), (3) automation of the process, and (4) better coordination between different agencies. A planning process can analyze and address these issues.

Bryson defines strategic planning as a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization (or other entity) is, what it does, and why it does it. Strategic planning can help establish priorities, improve organizational performance, deal effectively with rapidly changing circumstances, and build teamwork and expertise. [Ref. 39:p. 11]

During the strategic planning process, organizational missions and values are clarified [Ref. 40:p. 49]. By clarifying the missions and values, management can determine whether or not the priority of the contract closeout should be increased. The planning process also assesses the environment, both internal and external. The internal environment contains those factors that are controlled by an organization such as the resources (inputs), present strategy (process) and performance (outputs). By identifying the strengths and weaknesses of the internal environment of the contract closeout process, the issues of more resources (manpower) and automation of the process are addressed and analyzed. Coordination between different agencies is addressed through the assessment of the external environment which contains factors an organization does not control, such as the other commands. [Ref. 41:p. 54]

2. **Higher visibility of the contract closeout process.**

The survey results indicate that the contract closeout process requires higher visibility to obtain the necessary manpower and resources to efficiently and effectively close out contracts. However, higher visibility should not equate to more reports or additional oversight, but to an increase in awareness of the problems faced by subordinates in achieving the results for which they are held responsible [Ref. 42:p. 605]. Management's <u>active</u> participation in the closeout

process is vital. With a greater understanding of the contract closeout requirements, managers can better initiate advanced planning and assist with problems.

In addition, higher visibility does not mean more control, i.e., rules, regulations, and oversight, over the contract closeout process. Increasing the step-by-step oversight of subordinates will not ensure that the contracts are closed out efficiently and effectively. On the contrary, additional control will only serve to limit subordinate initiative, resourcefulness, and attention to detail.

3. **Should the limit for the Quick Closeout method be increased?**

The survey results indicated that personnel were willing to use alternate methods to close out contracts. As previously discussed in Section B.3., use of the two alternate methods (the Quick Closeout method and bilateral agreements) speed up the contract closeout process for Cost Reimbursement and Fixed-Price Incentive contracts. Although respondents to the survey stated that they would like to utilize the alternate methods of closing out contracts more often, the majority did not want the limit for Quick Closeout to increase. The respondents' desires to maintain the Quick Closeout limit at its current level may be attributable to the fact that most of the respondents have not used either method

and wish to gain more experience with the Quick Closeout procedure before increasing the limits.

4. Timely submission of final invoice by contractors.

One of the reasons for the delay in contract closeout stated in Section C of this Chapter is inaction by the contractor. Research has shown that the time frame for a contractor to submit his final invoice is not clearly delineated. In addition, there is no incentive (or disincentive) for a contractor to submit his final invoice in a timely manner. The survey results indicate that the majority of the respondents feel that a specific time frame for the contractor to submit his final invoice and a penalty if he fails to do so are necessary or desirable to improve the closeout process.

Existing contract remedies and/or new contract clauses can be utilized to expedite the contractor's submission of the final invoice. As mentioned in Chapter III, one remedy is to place contractors who fail to submit their final invoice and other pertinent closeout documents within the specified time period on the Contractor Alert List (CAL). These contractors should be considered candidates for the Contractor Improvement Program (CIP). Also, the ACO could consider non-contractual remedies, such as inclusion of comments in preaward surveys stating that the contractor failed to submit the final invoice in a timely manner. New contract clauses can state the

contractor's responsibility in the closeout process and provide some form of incentive to contractors to complete their responsibilities.

G. SUMMARY

This chapter analyzed the data presented in Chapter III. The current contract closeout process was examined, reasons for problems were evaluated, and consequences of untimely contract closeout were expanded. Other areas covered included an analysis of contract closeout specialist qualifications and how to improve the contract closeout process. Chapter V will provide conclusions, recommendations, answers to the research question and recommendations for further research.

V. RECOMMENDATIONS AND CONCLUSIONS

A. GENERAL

Increased management of contracts and the increased awareness of contracting personnel will benefit the administration of contracts and decrease the number of physically completed, open contracts that should be closed out. Agencies will be able to recover excess funds and dispose of Government furnished property. Through recovery of overpayments to the contractor, the interest cost for the U.S. Treasury will decrease. Proper management of contracts will reduce the backlogs and help in determining the problem areas that cause the delays. Understanding the problem areas, monitoring them, and correcting them may assist ACOs in avoiding potential litigation. Since litigation can take as long as seven years before a settlement is reached, the avoidance of potential litigation will decrease the need for payment of "old" contracts out of current appropriations (due to the loss of "M" accounts).

B. CONCLUSIONS

This research effort has led to several conclusions in regard to the contract closeout process.

Conclusion 1. Lack of management commitment is a major factor in contract closeout delay. Currently, contract closeout has a low priority in contract administration. Also, within DCAA, determining final overhead rates (necessary for closing out Cost Reimbursement and Fixed-Price Incentive contracts) has a low priority. The survey indicated that low priority and inaction by the ACO and DCAA were major problems in the contract closeout process. Because of the low priority, management does not allocate needed personnel to work the contract closeout process.

Conclusion 2. Lack of incentives (or disincentives) is a major reason contractors do not submit the final invoice in a timely manner. Inaction by the contractor was cited as a major reason in the survey for delay in contract closeout. The time frame for a contractor to submit the final invoice is not clearly delineated and no incentives (or disincentives) exist for a contractor to submit the final invoice in a timely manner. The Government must define contractors' responsibilities and ensure that established regulations are enforced.

Conclusion 3. Training in the contract closeout process is almost non-existent. The survey indicated that 85% of the respondents did not have any formal training on the contract closeout process. Those that did have some training stated that it was minimal. Currently, the contract closeout

process is taught as a segment in the Management of Defense Acquisition Contracts (MDAC) Advanced Contract Administration course. The National Contract Management Association also sponsors a workshop on conducting contract closeout.

Conclusion 4. The amount of funds that are unliquidated and could be deobligated is significant. Amounts that may have been considered insignificant in the early 1980s are now determined to be quite significant in these times of the decreasing budget. The survey indicated that amounts of deobligated funds ranged from 0.02% to 78.6% of the contract amount; dollar values ranged from $692.00 to $10,649,100.00.

Conclusion 5. Coordination is necessary between the various activities to efficiently close out contracts. Because of the many activities involved in the contract closeout process, close coordination is necessary to efficiently closeout contracts. The survey indicated that a major problem delaying contract closeout is reconciling differences between the paying and funding offices. Through increased coordination, differences between the paying and funding offices would decrease. Any differences could be worked out before they became a problem.

Conclusion 6. Alternate contract closeout methods are not being utilized to their fullest potential. The survey results demonstrated that the majority of the respondents are not utilizing the alternate methods of quick closeout and

bilateral agreements. Additionally, many are not aware of these alternate methods. Alternative methods are used to speed up the process of closing out Cost Reimbursement contracts. By not utilizing these alternate methods, the contract closeout process is prolonged.

Conclusion 7. There is no uniform system for tracking or reporting the closeout process. The survey demonstrated that DoD does not have a uniform system for tracking or reporting the closeout process. Some commands do not have a tracking or reporting system for contract closeout. Because many commands are involved in the closeout process, a uniform system is beneficial so that different commands can utilize the records of other commands. As stated in Chapter IV, using a uniform system would decrease the duplication of effort involved with inputting data into the system, reduce the chances of input error and speed up the contract closeout process by eliminating the time wasted in correcting discrepancies between commands.

Conclusion 8 . Cost Reimbursement contracts rarely meet the FAR time frame for contract closeout. The survey indicated that 96% of the respondents do not close out Cost Reimbursement contracts in the required time frame. Some respondents stated that some take up to ten years to close

out. There are several reasons for not meeting the required time frame; however, the bottom line is most Cost Reimbursement contracts become overaged.

C. RECOMMENDATIONS

As a result of the conclusions, the following recommendations are made.

Recommendation 1. Management needs to increase the priority of contract closeout. Currently, contract closeout has a low priority in contract administration. Also, based on confidential interviews with personnel in DCAA, determining final overhead rates (necessary for closing out cost reimbursement contracts) has a low priority. Administrative Contracting Officers need to realign their priorities in the administration of contracts. With the decreasing budget and decreasing personnel, ACOs need to start managing the administration of contracts instead of having the contracts manage them. ACOs can no longer afford to put the closeout process on the "back burner", but must aggressively seek the contracts that have unliquidated obligations and Government furnished property that need to be dispositioned.

Again, because of the decreasing budget, DCAA must also realign their priorities in auditing contracts. Management needs to increase the priority of final overhead rate audits.

There should be an increased effort to get the contracts closed out in the time frames established in the FAR.

Recommendation 2: Contracts should include clauses that provide incentives to contractors to achieve timely closeout. New contract clauses should clearly state the contractor's responsibility in the closeout process and provide some form of incentive to contractors to complete their responsibilities on time.

For contracts with a specified closing date, contracts should require that a final invoice be submitted by a firm date. If there is no specified closing date, the contractor should notify the Government when the product/service is completed and a time frame should be established for the invoice to be submitted. If the final invoice is not submitted by the firm date or established time frame, the Government should receive some type of consideration from the contractor.

Recommendation 3. Increase contract closeout training. Contracting schools need to discuss and emphasize the closeout process in their courses. The increased training will make contracting personnel aware of alternate methods of closing contracts. Training will also decrease the delay in closing out contracts because personnel will not have to learn the process "on the job".

Recommendation 4. More emphasis should be put on the initial contract funds status review. FAR 4.804-5 states that an initial contract funds status review shall be accomplished after the contract is physically completed and where appropriate, excess funds identified to the PCO. More emphasis should be placed on the importance of identifying and deobligating excess funds to make them available for further program use.

Recommendation 5. Increase coordination by increasing communications between the many activities involved in the contract closeout process. Increased coordination can come from an increase in the communications between the activities. Contracting offices need to inform the other activities of known closeout problems and discuss other concerns affecting the closeout process. The time required to closeout contracts should be reduced by actions such as reconciliation of open contract records and frequent meetings between participating organizations.

Recommendation 6: Utilize the alternate closeout methods more frequently. Increased use of alternate closeout methods can speed up the process and help to reduce unliquidated obligations and eliminate the administrative burden of maintaining open contracts for an extended time. The alternate methods are quick closeout and bilateral agreements.

Recommendation 7: Establish a DoD-wide system for collecting, reporting and monitoring data on the contract closeout process. Currently, there is no uniform system for collecting, reporting and monitoring data on the contract closeout process. A DoD-wide system is needed to ensure that the current closeout backlog is cleared and similar backlogs do not recur in the future.

D. REVIEW OF RESEARCH QUESTIONS

In order to respond to the research question, five subsidiary questions were posed. Responses can now be summarized beginning with the subsidiary questions and culminating with the principal research question.

Secondary Question 1: What are the current contract closeout procedures?

The current contract closeout procedures were discussed in Chapter II. Once the contract has been determined to be physically complete, a contract funds status review is accomplished and where appropriate, excess funds are identified to the PCO. The ACO, when delegated the administrative functions of the contract, will prepare a DD Form 1594, "Interim Contract Completion Statement," as set forth in DFAR 204.804-2, to alert the PCO that the contract is now physically complete and ready to begin the closeout process. Next, the ACO must ensure that the actions in FAR

4.804-5 are completed. Once completed, the ACO will prepare a DD Form 1594, "Contract Completion Statement," verifying that all contract actions have been completed and forward the original DD Form 1594 to the PCO. A signed (by the ACO) copy of the DD Form 1594 will be retained in the administration file as authority to close the file. The PCO will sign and retain the original DD Form 1594 in the contracting office contract file. The final step in the contract closeout process is the storing and disposing of the contract files. The FAR states that agencies shall prescribe procedures for handling, storing, and disposing of contract files. However, FAR 4.805 specifies individual retention periods for various documents.

Firm Fixed-Price contracts do not involve pricing actions at contract closeout, thus many of the actions listed in FAR 4.804-5 for closeout are not applicable. However, Cost Reimbursement and Fixed-Price Incentive contracts require several pricing actions, as well as additional administrative actions, before these contracts can be closed out.

A Contract Closeout Process Summary, Appendix C, has been developed by the researcher. This summary provides a flowchart of the steps in the contract closeout process and can be utilized as a procedures manual.

The data collected indicated that contract closeout policies and procedures are not being utilized or followed to

their fullest extent. Cost Reimbursement contracts are rarely closed out in the time frame stated in the FAR. Alternate methods designed to speed up the process of closing out contracts are also not utilized as often as they should be.

Secondary Question 2: What are the unique factors associated with performing contract closeout?

The unique factors associated with contract closeout are the complexities of the contracts themselves, the number of forms, the number of variables (delegations, contract types, etc.) and number of personnel in different activities involved. Because of these factors, each contract closeout is different and is unique in the problems that can be encountered. Another unique factor is that most personnel are performing contract closeout without training, without considerable management support, or support from other activities.

Secondary Question 3. What are the principal impediments to timely contract closeout?

In the contract closeout process, there are a wide variety of causes for delays and problems. The survey results indicated that the major reasons for the delay in the contract closeout process were: (1) low priority and limited manpower, (2) inaction by the contractor, DCAA and ACO, and (3) reconciling differences between the paying and funding office.

After analyzing these reasons, the following impediments to timely contract closeouts were determined:

- Lack of management support in all activities involved in contract closeout.
- Lack of incentives for contractors to submit the final invoice for cost reimbursement contracts.
- Lack of coordination among the different activities involved in the contract closeout process.
- Lack of training of the contract closeout process.

Secondary Question 4. What areas are particularly impacted by the failure to close out contracts on a timely basis?

The deobligation of funds, backlog, and availability of records and personnel are areas particularly impacted by the failure to close out contracts on a timely basis. Because of the FY91 legislation that phased out "M" accounts, the deobligation of excess funds on contracts has become increasingly important. Unused and unneeded funds can be lost if a delayed contract closeout causes deobligations to occur after the funds have expired.

Backlogs can lead to the disruption of normal operations when intensive efforts are needed to clear the backlog. Additionally, untimely contract closeout creates an additional administrative effort just by having to maintain these open contracts in the backlog. Corporate knowledge of personnel familiar with the contract's terms and history and

availability of records are lost when contracts are not closed out in a timely manner.

Secondary Question 5. What policy and procedural guidelines should be established or revised in order to more efficiently and effectively manage the contract close-out process?

The recommendations in the previous section should be incorporated to more efficiently and effectively manage the contract closeout process. The recommendations are as follows:

- Contracts should include clauses that provide incentives to contractors to achieve timely closeout.
- Utilize the alternate closeout methods more frequently.
- Establish a DoD-wide system for collecting, reporting and monitoring data on the contract closeout process.
- Management needs to increase the priority of contract closeout.
- Increase coordination by increasing communication between activities involved in the contract closeout process.
- Increase contract closeout training.
- More emphasis should be put on the initial contract funds status review.

Primary Question: What are the critical factors involved in effectively managing timely contract closeout and how might the process be made more efficient?

Critical factors involved in effectively managing timely contract closeout are addressed in Secondary Question 3. The

principal impediments in closing out contracts are also the critical factors involved in managing contract closeout. Secondary Question 5 and the recommendations in the previous section answer how the process might be made more efficient.

The critical factors and recommendations can be summed up by saying that management and planning are the critical factors involved in effectively managing timely contract closeout and are also how the process can be made more efficient.

Management can alleviate the problems of low priority and manpower. Subordinates usually give their attention to whatever management emphasizes. If management turns their attention to contract closeout, their subordinates will follow suit. By increasing the priority of closing out contracts, management will have to allocate more manpower to complete the job. It is management that allocates personnel to different procurement functions. The increase in priority and manpower will reduce the problems of inaction of the ACO and DCAA that were stated in the survey. These problems will be reduced because both the administration and audit offices will now have the manpower to accomplish their functions in the contract closeout process.

In the preaward phase, clauses can be included in the contract that will provide an incentive for contractors to submit their final invoice in a timely manner. In the

postaward phase, increased coordination can come from better communications among the various activities and contractor involved with the contract. Managers can develop plans for conducting the overall contract process prior to writing the first lines of a contract. Such factors as inclusion of specific clauses in the preaward phase and setting up of meetings with the contractor and the various Government activities involved with the contract can facilitate the closeout process.

Management and planning are both involved in training personnel. Through training, management gives personnel the tools needed to complete his/her job efficiently and effectively. Additionally, an effective training plan requires advanced planning.

Management and planning are both needed to be able to establish a DoD-wide system for collecting, reporting and monitoring data on the contract closeout process.

E. AREAS OF FURTHER RESEARCH

It was determined in Chapter IV that the current PUR system had shifted the hours spent on contract administration to other functions in the procurement. An area of further research is to investigate how the PUR system can be revised to shift the personnel and priority back to contract

administration, which would also shift the personnel and priority back to the contract closeout process.

A result of the survey raised an additional question that is recommended for further research. Because of the overwhelming majority of respondents that stated that they do not close Cost Reimbursement contracts within the time frames required by the FAR, the researcher feels that a review of FAR time frames for contract closeout should be researched and reevaluated.

The contract closeout process involves many forms, variables and different activities. A final area for further research is how to simplify and streamline the process.

APPENDIX A

SURVEY RESPONDENTS

1. Naval Supply Center-Charleston
   Charleston, SC 29408-6300

2. Naval Air Test Center
   Patuxent, MD 20670-5304

3. David Taylor Research Center
   Bethesda, MD 20084-5000

4. Naval Ordinance Station
   Indian Head, MD 20640-5000

5. Naval Surface Warfare Center-Dahlgren
   Dahlgren, VA 22448-5000

6. Naval Surface Warfare Center-White Oaks
   Dahlgren, VA 22448-5000

7. Naval Ocean Systems Center
   San Diego, CA 92152-5000

8. Naval Weapons Center
   China Lake, CA 93555-6001

9. Naval Air Engineering Center
   Lakehurst, NJ 08733

10. Naval Underwater Systems Center
    Newport, RI 02801-5047

11. Naval Weapons Support Center
    Crane, IN 47522-5011

12. Naval Coastal Systems Center
    Panama City, FL 32407-5000

13. Naval Shipyard Mare Island
    Vallejo, CA 94592-5100

14. Naval Air Station-Point Mugu
    Point Mugu, CA 93042-5027

15. Marine Corps Air Station-Cherry Point
    Cherry Point, NC 28533-5040

16. Naval Construction Battalion Center
    Gulfport, MS 39501-5000

17. Supervisor of Shipbuilding, Construction & Repair
    Newport News, VA 23607-2787

18. Supervisor of Shipbuilding, Construction & Repair
    Pascagoula, MS 39568-2210

19. Supervisor of Shipbuilding, Construction & Repair
    Groton, CT 06340-4990

20. Supervisor of Shipbuilding, Construction & Repair
    Seattle, WA 98115-5003

21. Supervisor of Shipbuilding, Construction & Repair
    Sturgeon Bay, WS 54235-0026

22. Marine Corps Air Station-Yuma
    Yuma, AZ 85369-5030

23. Air Force Systems Command
    Andrews AFB, MD 20334-5000

24. Rome Air Development Center
    Griffiss AFB, NY 13441

25. Ogden Air Logistics Center (4 respondents)
    Hill AFB, UT 84056-5000

26. Sacramento Air Logistics Center
    McClellan AF, CA 95653

27. Defense Contracts Management Division-South
    805 Walker Street
    Marietta, GA 30060-2789

28. Defense Contracts Management Division-Northeast
    495 Summer Street
    Boston, MA 02210-2184

29. Defense Contracts Management Division-West (8 respondents)
    222 N. Sepulveda Blvd.
    El Segundo, CA 90245-4320

30. U.S. Army Special Operations Command
Fort Bragg, NC 28307-5200

31. U.S. Coast Guard Headquarters
2100 Second Street, S.W.
Washington, D.C. 20593-0001

32. Defense Contracts Management Division-North Central
O'Hare International Airport
P.O. Box 66475
Chicago, IL 60666-0475

33. U.S. Army Troop Support Command
4300 Goodfellow Blvd.
St. Louis, MO 63120-1798

34. Defense Logistics Agency
Cameron Station
Alexandria, VA 22304-6100

35. Marine Corps Recruit Depot
P.O. Box 5069
Parris Island, SC 29905-5000

36. Marine Corps Air Ground Combat Center
Twenty-Nine Palms, CA 92278-5000

37. Marine Corps-Camp LeJeune
P.O. Box 8368
Camp LeJeune, NC 28542-5000

38. Marine Corps-Camp Pendleton
P.O. Box 1609
Oceanside, CA 92051-1609

39. Supervisor of Shipbuilding, Construction & Repair
P.O. Box 215
Portsmouth, VA 23705-0215

40. Supervisor of Shipbuilding, Construction & Repair
495 Summer Street
Boston, MA 02210-2181

41. Supervisor of Shipbuilding, Construction & Repair
Naval Base-Charleston
Charleston, SC 29408-6230

42. Supervisor of Shipbuilding, Construction & Repair
    Naval Station, Box 119
    San Diego, CA 92136-5119

43. Supervisor of Shipbuilding, Construction & Repair
    Flushing & Washington Avenues
    Brooklyn, NY 11251-9000

44. Naval Regional Contracting Center-San Diego
    937 Harbor Drive
    San Diego, CA 92132-5075

45. Naval Regional Contracting Center-Philadelphia
    Bldg 600, Naval Base
    Philadelphia, PA 19112-5082

46. Naval Regional Contracting Center-Washington
    Washington Navy Yard
    Washington, D.C. 20374

47. Naval Aviation Supply Office
    700 Robbins Avenue
    Philadelphia, PA 19111-4098

48. Naval Supply Center-Puget Sound
    Puget Sound
    Bremerton, WA 98314-5100

49. Naval Supply Center-Pearl Harbor
    Box 300
    Pearl Harbor, HI 96860-5300

50. Defense General Supply Center
    Richmond, VA 23297-5000

APPENDIX B

DATA CONCERNING DEOBLIGATED FUNDS

The following are data received by the researcher concerning the amount of funds that were deobligated when the contract was closed out.

	DATE	CONTRACT AMOUNT	DEOBLIGATION	%
1	10/91	5,886,928	166,302	2.82
2	10/91	374,960	4,735	1.26
3	10/91	4,120,000	102,812	2.50
4	10/91	150,368	1,253	0.83
5	09/90	416,000,000	5,500,000	1.32
6	09/90	269,000,000	2,000,000	0.74
7	09/90	4,000,000	25,000	0.63
8	09/90	87,000,000	1,700,000	1.95
9	02/89	2,600,000	1,200,000	46.15
10	09/87	800,000	100,000	12.50
11	12/90	295,499	9,606	3.25
12	12/90	493,971	75,463	15.28
13	12/90	224,967	53,456	23.76
14	12/90	23,474,675	2,142,894	9.13
15	12/90	3,960,835	166,614	4.21
16	12/90	379,546	15,811	4.17
17	03/91	4,825,000	72,134	1.50
18	04/91	19,424,304	19,749	0.10
19	05/91	445,340	3,936	0.88
20	06/91	9,992	3,155	31.58
21	08/91	3,500,000	90,703	2.59

	DATE	CONTRACT AMOUNT	DEOBLIGATION	%
22	06/91	369,042	692	0.19
23	02/91	1,531,277	17,371	1.13
24	07/91	16,680	2,780	16.67
25	02/89	423,856	1,552	0.37
26	03/89	184,928,572	1,490,250	0.81
27	10/90	42,676,983	1,799,676	4.22
28	07/88	26,942,031	9,663	0.04
29	03/88	7,851,099	211,901	2.70
30	03/88	22,411,652	737,183	3.29
31	06/91	13,141,290	25,000	0.19
32	06/90	4,648,311	2,741	0.06
33	09/91	603,751	22,461	3.72
34	08/91	5,500,000	1,000,000	18.18
35	07/91	15,250	15,250	100.00
36	07/91	10,000,000	150,000	1.50
37	06/91	39,157	30,768	78.58
38	02/91	4,600,000	353,739	7.69
39	09/90	597,724,319	1,943,200	0.33
40	09/91	638,433,167	394,340	0.06
41	09/91	531,000,898	3,186,961	0.60
42	03/89	87,499	2,007	2.29
43	03/89	468,852	14,673	3.13
44	03/89	608,054	3,570	0.59
45	07/89	53,000	20,985	39.59
46	03/89	242,000	69,450	28.70
47	03/89	47,228	31,477	66.65

	DATE	CONTRACT AMOUNT	DEOBLIGATION	%
48	03/89	164,525	30,234	18.38
49	03/89	246,000	5,841	2.37
50	03/89	456,000	6,703	1.47
51	05/89	18,039,015	330,512	1.83
52	07/89	18,220,007	466,859	2.56
53	03/89	812,027	18,841	2.32
54	05/89	10,004,775	1,163,640	11.63
55	03/89	229,889	44,725	19.46
56	12/88	100,026	5,000	5.00
57	11/88	100,000	9,567	9.57
58	11/88	128,000	3,477	2.72
59	11/88	240,000	51,882	21.62
60	11/88	2,240,120	95,381	4.26
61	07/89	315,718	8,356	2.65
62	11/88	3,850,000	82,840	2.15
63	06/89	261,758,475	10,649,100	4.07
	TOTAL	$3,258,234,930.00	$37,964,271.00	

Average percentage is 10.48%
(660.49/63=10.48%)

APPENDIX C

CONTRACT CLOSEOUT PROCESS SUMMARY

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A. GENERAL DEFINITIONS USED IN THE CLOSEOUT PROCESS

The following definitions are common terms used in discussion of contract closeout:

1. Physically Complete Contract

An important aspect to understand about contract closeout is when the contract becomes physically complete. All closeout activities are linked to this date.

The official definition of physical completion can be found in FAR 4.804-4 (Exhibit A). It states that a contract is physically completed when both the Government and the contractor agree to the following:

- The contractor has completed the required deliveries and the Government has inspected and\accepted the material (DD Form 250 completed);
- The contractor has performed all services and the Government has accepted such services;
- All options, if any, have expired; or,
- The Government has given the contractor a notice of complete termination.

2. Closed Contract

Contracts exceeding the small purchase limitation (over $25,000) are closed when the buying activity contracting officer signs either the DD Form 1594 or PK9 (MILSCAP) Contract Completion Statement. The Contracting Officer should

do this only after the contract becomes physically completed and all administrative actions are completed. However, a contract should not be closed while in litigation, or an appeal is pending before the ASBCA or GSBCA.

3. Administratively Complete Contract

When a contract is delegated to a cognizant ACO in the field, certain responsibilities go with the delegation (FAR 42.302). "Administratively complete" means that all the actions required of the ACO in the delegation of duties have been accomplished. Most ACOs use the DD Form 1597, "Contract Closeout Checklist". However, additional responsibilities may be included in the contract that are not on the form. The ACO will also use another form, a DD Form 1594, "Contract Completion Statement." This form is used for two purposes. One is to notify the Procuring Contracting Officer (PCO) when the contract is physically completed and the second is to inform the PCO that the closeout actions have been completed.

4. Completion Statement

A formal statement by the contractor stating that all supplies and/or services have been furnished to the Government.

5. Quick Closeout Procedure (FAR 42.708)

The "Quick Closeout Procedure" can be utilized when the contract is physically complete and closeout will be delayed pending DCAA's final indirect cost determination. The

Quick Closeout Procedure allows the ACO to negotiate a settlement of indirect costs for a specific contract in advance of the determination of final indirect rates. FAR 42.708 (Exhibit A) states that the use of the Quick Closeout Procedures can be utilized when:

- The contract is physically complete;
- The amount of unsettled indirect cost to be allocated to the contracts is relatively insignificant as compared with the amount which would have been applied if the annual rates were applied; and
- Agreement can be reached on a reasonable number of allocable dollars.

In a May 1989 Memorandum for Distribution, the Office of the Assistant Secretary of the Navy (Shipbuilding and Logistics) (ASN (S & L)) defined "unsettled" to be those costs which are classified by the DCAA as "questioned" or "unsupported" for those years which have been audited by DCAA. For unaudited years, "unsettled" indirect costs are interpreted to be unaudited costs allocable to the contract.

Costs may be determined "relatively insignificant" when they do not exceed either 15% of the total indirect cost incurred on the contract, or $500,000, whichever is less [Ref. 3:p. 6118]. FAR 42.708 states that the final indirect costs under the quick-closeout procedure are final for the contract it covers and no adjustments shall be made to other contracts for over- or under- recoveries of costs allocated or allocable to the contract covered by the agreement. In

addition, indirect cost rates used in the quick closeout of a contract shall not be considered a binding precedent when establishing the final indirect cost rates for on other contracts.

B. CONTRACT CLOSEOUT FILES

FAR 4.801 (Exhibit A) states that each office performing contracting, contract administration, or paying functions shall establish files containing the records of all contractual actions. During contract closeout, files must be updated and forms authorizing contract closeout must be completed. Each office must close out their file.

1. Contracting Office Contract File

FAR 4.802(a)(1) (Exhibit A) states that the contracting office contract file shall document the basis for the acquisition and the award, the assignment of contract administration (including payment responsibilities), and any subsequent actions taken by the contracting office. FAR 4.803 (Exhibit A) states, in detail, the contents for the "contracting office contract file."

When the contracting (buying) office delegates administration to the Defense Logistics Agency (DLA) or another agency for administration, it sets up the creation of two sets of files on the same contract. The closing of the contracting (buying) office and administration office contract

files are linked together whereas the paying office closes their files independently of other files.

2. Contract Administration Office File

FAR 4.802(a)(2) (Exhibit A) states that the contract administration office contract file shall document the basis for and the performance of contract administration responsibilities. In FAR 4.803(b) (Exhibit A) the specific items to be included in the contract administration office file are set forth. This file is maintained by the Contract Administration Office (CAO) for use in administering the contract. During contract performance, many official records may not be in the ACO's file such as; property, quality assurance, production, engineering, and purchasing system information. During the contract closeout process these files are assembled together in the contract administration contract file.

The closing of the buying and administrative contract files are linked together by one form; the DD Form 1594 "Contract Completion Statement". Although the buying and administrative files are closed separately, they close on the same date. This date is assigned by the ACO. If the buying activity cannot close its files within 90 days of the administrative office date, then the ACO assigned closeout date is superseded by the PCO assigned dated. It is important

that the PCO advises the ACO so the administrative files are not closed/stored and destroyed early.

3. Paying Office Contract File

FAR 4.803(c) (Exhibit A) states that the paying office contract file will contain:

- Copy of the contract and any modifications
- Bills, invoices, vouchers and supporting documents
- Record of payments and receipts
- Other pertinent documents.

The finance office closes its file independently of the PCO and ACO files and uses no special forms. The paying office contract file is closed upon final payment.

C. PERSONNEL INVOLVED IN THE CLOSEOUT PROCESS

The Procuring Contracting Officer (PCO) and Administrative Contracting Officer (ACO) can be the same person. If the PCO does not delegate the administrative functions to another agency, s/he will be the ACO. On the other hand, if the PCO does delegate the administrative functions to another agency, that agency will assign an ACO to the contract.

1. Procuring Contracting Officer (PCO)

The PCO is the person who "opens" the contract by awarding it and then ultimately "closes" the contract at the end. The closing of the "contracting office contract files"

can only be done at the buying activity. The ACO "administratively" closes the file.

2. Administrative Contracting Officer

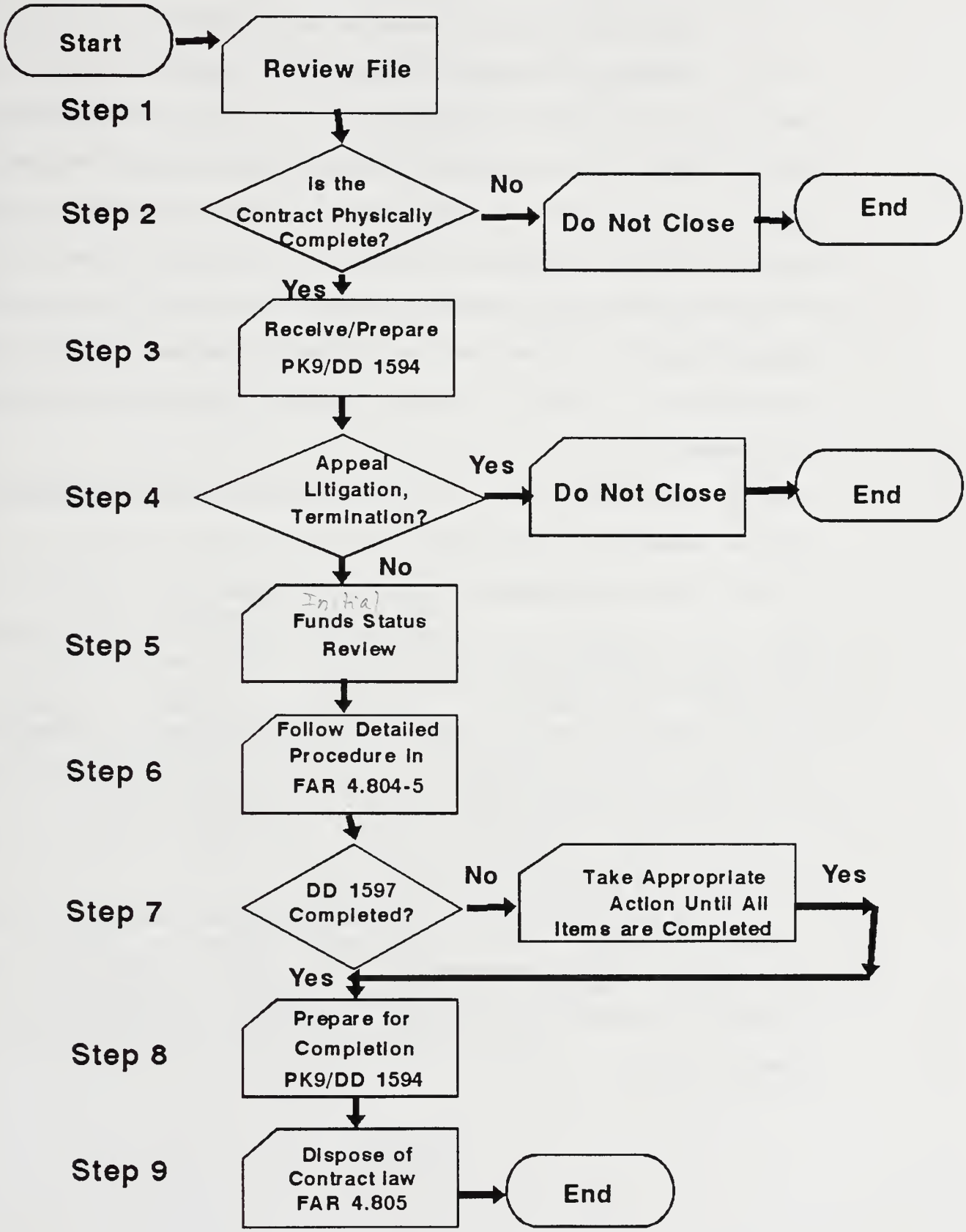
The Administrative Contracting Officer (ACO) is responsible for completing and initiating the closeout action. S/He coordinates all organizations (the contractor, the requiring activity, DCAA, if applicable, etc.) involved with the contract and ensures that each has submitted the appropriate contract completion forms. When the ACO makes the determination that the contract is physically and administratively complete, s/he then, certifies it and forwards the certificate to the PCO for signature.

D. TIME FRAMES FOR CONTRACT CLOSURE ACTION

The Government has established standard time frames for contract closure action. FAR 4.804-1 (Exhibit A) states that the purpose of these time frames is to promote the timely closeout of contracts. The following are the time frames for contract closeout (after physically completion):

Firm-Fixed-Price contracts (excluding small purchases)	6 months
Contracts requiring settlement of indirect rates	36 months
All other contracts	20 months

E. CONTRACT CLOSEOUT FLOWCHART



Step 1. Review file.

1. File should be reviewed prior to closeout.

2. Thirty to sixty days prior to either the final delivery or estimated completion date, the ACO should ensure that a comprehensive contract review is made to determine any step in the contract closeout process which can be initiated before physical completion of the contract, e.g. final patent or royalty reports, plant clearance, completion of property administration. Contract requirements should be reviewed immediately to identify those on which the closeout actions can begin.

Step 2. Decision Point: Is the Contract Physically Complete? (FAR 4.804-4):

1. An important aspect to understand about closeout is when the contract became physically complete. All closeout activities are linked to this date.

2. As soon as the required delivery date (or completion date) has passed, review the file documentation and ensure that evidence (including date) of final inspection and acceptance has been received.

3. If information has not been received, forward a letter to the activity responsible for final inspection and acceptance requesting closeout information. See Exhibit B for sample letter.

4(a). If the contract is not physically complete, do not closeout the contract.

4(b). If the contract is physically complete, go to Step 3.

Step 3. Receive/Prepare PK9 or DD Form 1594 (DFAR 204-804-2) (Exhibit C):

1. A DD Form 1594, Interim Contract Completion Statement, (Exhibit D) or PK9 (Exhibit E) must be prepared and submitted to notify the PCO that the contract is physically complete and ready to begin closing out.

2. Use of the PK9 or DD Form 1594 is dictated by your offices directives.

- o DD Form 1594, Contract Completion Statement
- o PK9, Contract Completion Statement, a MILSCAP form used the same way as a DD 1594.

(Note: These forms are used for a dual purpose; 1) Interim Contract Completion Statement as required in this step and 2) Contract Completion Statement to inform the PCO when the closeout actions are accomplished and to obtain his signature as documentation of his/her concurrence of the closeout)

In the preparation of the DD Form 1594, Interim Contract Completion Statement, Block 8, remarks, will be annotated "Notice of Physical Completion". Block 8 will also contain the final acceptance date and the typed name and signature of a responsible official and the date signed. Blocks 9B, 9C, and 9D of the form will be left blank.

Step 4. Decision Point: Appeal, Litigation, Termination?

1. No contract, even though physically competed, can be closed out while it is in litigation, while an appeal is pending before the Armed Services Board of Contract Appeals (ASBCA), General Services Board of Contract Appeals (GSBCA), or until all termination actions have been completed.

2(a). If the contract is in appeal, litigation, or all termination actions have not been completed, do not closeout the contract.

2(b). If the contract is not in appeal, litigation, and all termination actions have been completed, go to Step 5.

Step 5. Decision Point: Funds status review.

1. Accomplish an initial contract funds status review to determine if there are any excess funds.

2. If final payment information has not been received from the paying activity, request the payment information. See Exhibit B.

Note: The Final Payment notice is not required on Indefinite Delivery type contracts or Basic Ordering Agreements pursuant to NAVCOMPT Manual Paragraph 046656. (Exhibit F)

3(a). If there are excess funds, identify and deobligate them, if possible, by use of a bilateral contract modification as required by DFAR 243.105 (Exhibit C) and NAPS 43.105(c)(1) (Exhibit G).

3(b). If there are no excess funds, go to Step 6.

Step 6. Follow Detailed Procedure in FAR 4.804-5

1. The actions stated in FAR 4.804-5 (Exhibit A) will be addressed in Step 6(a) through Step 6(p).

2. Many of the procedures and actions stated in FAR 4.804-5 may be accomplished simultaneously. Some procedures and actions may not be required or applicable and others may need to be modified to reflect the extent of the administration actually necessary.

3. The contract clauses must be checked to determine which action are not applicable.

4. In order to complete the administrative closeout procedures, FAR 4.804-5, the ACO utilizes DD Form 1597 Contract Closeout Check-List (Exhibit H) and DD Form 1593 Contract Administration Completion Record (Exhibit I).

5. Request for information should be forwarded as soon as possible after the contact is physically completed. Initiate DD Form 1593's, Contract Administration Completion Record, and forward to the applicable department. The DD Form 1593 is used to obtain statements from other organizational elements certifying completion of actions required of each.
(Normally a single copy should be routed in turn to offices concerned, but separate forms may be routed when necessary, such as when closeout actions are complex and extensive or when offices are at different locations.)

6. Time and Material/Labor Hour type contracts include FAR 52.232-7 (Exhibit A) entitled "Payment under Time and Material and Labor-Hours contracts" which requires submission of the contractor's completion invoice or voucher, audit by DCAA of each payment previously made, contractor's submission of final release and contractor's assignment of refunds, rebates, credits, etc. prior to closeout. After all of the actions in FAR 4.804-5 have been accomplished and any audit finding negotiated by the Contract Administrator, the ACO must forward the final/completion voucher to the Paying Officer with instructions to release the funds withheld.

7. Cost Reimbursable Contracts include FAR 52.216-7 (Exhibit A) entitled "Allowable Cost and Payment" which requires an audit by DCAA of the contractor's proposal for final settlement of indirect costs rates, final voucher or invoice, contractor's submission of final release, and contractor's assignment of refunds, rebates, credits, etc. prior to contract closeout.

NOTE: In accordance with FAR 42.708, the ACO may negotiate the settlement of indirect costs under quick closeout procedures if (1) the contract is physically complete, (2) unsettled indirect cost to be allocated is insignificant; and (3) agreement can be reached on reasonable estimate of allocable dollars.

The ACO shall initiate a follow-up to the customer activity, requesting the Contractor Performance report (required by all

Contract Administration Plans) and any additional information required regarding the status of the contract.

8. To simplify the long process to closeout a T&M or cost type contract, sample letters to obtain necessary information and process final vouchers for payment are included as Exhibits J, K, L, M, and N.

Step 6(a). Disposition of classified material is completed.

1. Clearance of this item is required on all contracts under which classified documents are issued to the contractor, under which the contractor generates classified material, or has custody or classified equipment.

2. Submit a DD Form 1593 to the Security Officer at the customer activity for certification of completion.

3. The cognizant Defense Industrial Security office shall be advised of status/disposition of classified material.

NOTE: A signed copy of the DD Form 1593, Contract Administration Completion Record, marked "INFORMATION COPY" must be sent to the cognizant Industrial Security Office.

Step 6(b). Final patent report is cleared.

1. If the contract contains a patent clause, FAR 52.227-11 and 52.227-12 (Exhibit A), the ACO shall initiate a letter request for the submittal of the final patent report (DD Form 882, Report of Inventions and Subcontracts)(Exhibit O).

2. The final patent report should be reviewed before approval. Some commands have the DD Form 882s forwarded to legal counsel for review prior to acceptance.

NOTE: In the contract contains the Patent clause, interim reports are also required for each year for the life of the contract. The prime contractor is responsible for obtaining DD Form 882's for all subcontractor involved.

Step 6(c) Final royalty report is cleared.

1. If the contract contains a royalty clause FAR 52.227-9 (Exhibit A), the ACO shall request that the contractor provide documentation confirming or denying receipt of royalties under the contract.

2. If royalties have been paid, insure final royalty report has been submitted and approved.

Step 6(d). There is no outstanding Value Engineering Change Proposal.

If the contract contains a Value Engineering clause, FAR 52.248-1 (Exhibit A), the ACO shall request that the contractor provide a letter insuring that there are no outstanding value engineering change proposals.

Step 6(e). Plant clearance report is received.

1. This item is relevant to Government-owned or furnished equipment used in a manufacturing process. This item should be cleared in accordance with the provisions of FAR 45.6 (Exhibit A).

2. Submit DD Form 1593 to the Plant/Property Administrator for certification of completion.

Step 6(f). Property clearance is received.

1. If GFP is provided under the contract, the contractor must complete and submit DD Form 1662, DoD Property in the Custody of Contractors (Exhibit P). Completion of the item also required a determination and instructions to the contractor regarding the disposition of all GFP not properly consumed in performance of the contract.

2. Submit the DD Form 1593 to the Plant/Property Administrator for certification of completion.

Step 6(g). All interim or disallowed costs are settled.
This item applies to cost reimbursement type contracts and is coordinated with the cognizant DCAA office.

Step 6(h). Price revision is completed.
Applies to contracts containing an EPA clause or incentive provisions.

Step 6(i). Subcontracts are settled by the prime contractor
Applies to contracts which have been terminated where the termination action involves termination settlement agreements with subcontractors.

Step 6(j). Prior year indirect cost rates are settled.

1. Applicable to cost type contracts.

2. DCAA negotiates agreement with contractors and provides periodic reports upon completion of this item.

Step 6(k). Termination docket is completed.

1. Applicable only if the contract is terminated.

2. The term "Docket" refers to a case schedule to be presented to either the Board of Contract Appeals or a Court.

Step 6(m). Contract Audit is completed.

1. A final audit of indirect rates is required for cost type contracts and fixed price incentive type contracts, and is obtained for Time and Material/Labor Hour contracts at the discretion of the ACO.

2. The ACO must submit a request to DCAA for a final audit of indirect rates.

3. The date of the audit is usually provided within the transmittal letter or the audit itself.

Step 6(n). Contractor's closing statement is completed.

1. Applicable to Cost type contracts.

2. Closing statement consists of the following:

   a. DCAA audit report

   b. Contractor's Assignment of refunds, rebates, credits, etc.

   c. Contractor's release discharging the Government, its officers, agents, and employees from all liabilities, obligations, and claims arising out of or under the contract.

   d. If applicable, Contractor's reservation of claims. A reservation of claims is a supplemental release agreement which allows the contractor the right to reserve those outstanding claims identified for future settlement.

3. If the DCAA Final Audit reveals either an overpayment or an underpayment, this package will contain:

a. DCAA audit report

b. Contractor's concurrence or disagreement

c. If DCAA audit determines underpayment, package will probably contain Contractor's Final Invoice in amount of DCAA determined underpayment.

If the contractor disagrees with the auditor's report, the ACO will negotiate with the contractor to reconcile the differences.

If the ACO does not agree with DCAA's audit report, the Procurement Contracting Officer (PCO) will make the final determination after reviewing DCAA's audit report and the ACO's detailed explanation on why s/he does not agree with the audit.

If the audit report is acceptable and the contractor has been underpaid, the ACO shall review the contract file to determine whether sufficient obligated funding remains to pay any additional amount owed on the contract. Otherwise, the ACO shall initiate a request to the customer activity for the additional funding required to pay the contractor's final invoice and upon receipt, modify the contract to provide funding for payment.

If the contractor has been overpaid, the ACO shall make arrangements in accordance with agency procedures to recoup the overpaid amount.

4. Any outstanding amounts owed either to the contractor or by the contractor must be resolved prior to completion of this action.

Step 6(o). Contractor's final invoice has been submitted.

1. The contractor's final voucher/invoice, Release and Assignment Statement and DCAA audit report are forwarded to the Government paying office by the ACO.

2. For FFP contracts, only the final voucher/invoice is forwarded to the paying office.

Step 6(p). Contract funds review is completed and deobligation of any excess funds is recommended.

The ACO shall initiate a modification to deobligate the excess funds.

Step 7. Is the DD Form 1597 completed/cleared?

If the DD Form 1597 is not completed, take appropriate action until all items listed on the DD Form 1597 have been completed.

If the DD Form 1597 is completed, go to Step 8.

Step 8. Prepare a Completion DD 1594 or PK9 (FAR 4.804-5 and DFARS 204.804-2)

1. The contracting officer administering the contract shall prepare a PK9 or DD Form 1594 "Contract Completion Statement" verifying that all contract actions have been completed.

2. The "closing date" is established by the ACO on the DD Form 1594.

3. The ACO forwards the original DD Form 1594 to the PCO and retains a signed (by the ACO) copy of the DD Form 1594 in the administration file as authority to close the file.

Note: The ACO sends only the DD Form 1594 and not the entire file.

4. Although the buying and administrative files are closed separately, they close on the same date. This date is assigned by the ACO. However, if the buying activity cannot close its files within 90 days of the administrative office then the ACO assigned closeout date is superseded by the PCO assigned dated. It is important that the PCO advises the ACO

so the administrative files are not closed/stored and destroyed early.

Step 9. Dispose of Contract IAW FAR 4.805.

1. The final step in the contract closeout process is the storing and disposing of the contract files.

2. After the above actions have been completed, in accordance with DFAR5S 204.805 (Exhibit C), the contract file shall be:

a. Removed from the active files;

b. Reviewed to ensure the file is complete with all original file copies of documents;

c. Reviewed to ensure that all working or duplicate copies of documents have been removed and/or destroyed;

d. Marked with "Completed (date)" on the outside of the folder.

3. Inactive files shall be stored and shall not be destroyed before the times indicated in FAR 4.805 (Exhibit A).

SUBPART 4.8—CONTRACT FILES

4.800 Scope of subpart.

This subpart prescribes requirements for establishing, maintaining, and disposing of contract files for all contractual actions. The application of this subpart to small purchases and other simplified procedures covered by Part 13 is optional. See also documentation requirements in 13.106(c).

4.801 General.

(a) The head of each office performing contracting, contract administration, or paying functions shall establish files containing the records of all contractual actions.

(b) The documentation in the files (see 4.803) shall be sufficient to constitute a complete history of the transaction for the purpose of—

(1) Providing a complete background as a basis for informed decisions at each step in the acquisition process;

(2) Supporting actions taken;

(3) Providing information for reviews and investigations; and

(4) Furnishing essential facts in the event of litigation or congressional inquiries.

(c) The files to be established include—

(1) A file for cancelled solicitations;

(2) A file for each contract; and

(3) A file such as a contractor general file, containing documents relating—for example—to (i) no specific contract, (ii) more than one contract, or (iii) the contractor in a general way (e.g., contractor's management systems, past performance, or capabilities).

4.802 Contract files.

(a) A contract file should generally consist of—

(1) The contracting office contract file, which shall document the basis for the acquisition and the award, the assignment of contract administration (including payment responsibilities), and any subsequent actions taken by the contracting office;

(2) The contract administration office contract file, which shall document actions reflecting the basis for and the performance of contract administration responsibilities; and

(3) The paying office contract file, which shall document actions prerequisite to, substantiating, and reflecting contract payments.

(b) Normally, each file should be kept separately; however, if appropriate, any or all of the files may be combined; e.g., if all functions or any combination of the functions are performed by the same office.

(c) Files shall be maintained at organizational levels that shall ensure—

(1) Effective documentation of contract actions;

(2) Ready accessibility to principal users;

(3) Minimal establishment of duplicate and working files;

(4) The safeguarding of classified documents; and

(5) Conformance with agency regulations for file location and maintenance.

(d) If the contract files or file segments are decentralized (e.g., by type or function) to various organizational elements or to other outside offices, responsibility for their maintenance shall be assigned. A central control and, if needed, a locator system should be established to ensure the ability to locate promptly any contract files.

(e) Contents of contract files that are proprietary or source selection information as defined in 3.104-4 shall be protected from disclosure to unauthorized persons (see 3.104-5).

4.803 Contents of contract files.

The following are examples of the records normally contained, if applicable, in contract files:

(a) *Contracting office contract file.* (1) Purchase request, acquisition planning information, and other presolicitation documents.

(2) Justifications and approvals, determinations and findings, and associated documents.

(3) Evidence of availability of funds.

(4) Synopsis of proposed acquisition as published in the Commerce Business Daily or reference thereto.

(5) The list of sources solicited, and a list of any firms or persons whose requests for copies of the solicitation were denied, together with the reasons for denial.

(6) Set-aside decision.

(7) Government estimate of contract price.

(8) A copy of the solicitation and all amendments thereto.

(9) Security requirements and evidence of required clearances.

(10) A copy of each offer or quotation, the related abstract, and records of determinations concerning late offers or quotations. Unsuccessful offers or quotations may be maintained separately, if cross-referenced to the contract file. The only portions of the unsuccessful offer or quotation that need be retained are—

(i) Completed solicitation sections A, B, and K;

(ii) Technical and management proposals;

(iii) Cost/price proposals; and

(iv) Any other pages of the solicitation that the offeror or quoter has altered or annotated.

(11) Contractor's contingent fee representation and other certifications and representations.

(12) Preaward survey reports or reference to previous preaward survey reports relied upon.

(13) Source selection documentation.

(14) Contracting officer's determination of the contractor's responsibility.

(15) Small Business Administration Certificate of Competency.

(16) Records of contractor's compliance with labor policies including equal employment opportunity policies.

(17) Cost or pricing data and Certificates of Current Cost or Pricing Data or a required justification for waiver.

(18) Packaging and transportation data.

(19) Cost or price analysis.

(20) Audit reports or reasons for waiver.

(21) Record of negotiation.

(22) Justification for type of contract.

(23) Authority for deviations from this regulation, statutory requirements, or other restrictions.

(24) Required approvals of award and evidence of legal review.

(25) Notice of award.

(26) The original of (i) the signed contract or award, (ii) all contract modifications, and (iii) documents supporting modifications executed by the contracting office.

(27) Synopsis of award or reference thereto.

(28) Notice to unsuccessful quoters or offerors and record of any debriefing.

(29) Acquisition management reports (see Subpart 4.6).

(30) Bid, performance, payment, or other bond documents, or a reference thereto, and notices to sureties.

(31) Report of postaward conference.

(32) Notice to proceed, stop orders, and any overtime premium approvals granted at the time of award.

(33) Documents requesting and authorizing modification in the normal assignment of contract administration functions and responsibility.

(34) Approvals or disapprovals of requests for waivers or deviations from contract requirements.

(35) Rejected engineering change proposals. These proposals may be filed separately for early disposal (see 4.805(h)).

(36) Royalty, invention, and copyright reports (including invention disclosures) or reference thereto.

(37) Contract completion documents.

(38) Documentation regarding termination actions for which the contracting office is responsible.

(39) Cross-references to pertinent documents that are filed elsewhere.

(40) Any additional documents on which action was taken or that reflect actions by the contracting office pertinent to the contract.

(41) A current chronological list identifying the awarding and successor contracting officers, with inclusive dates of responsibility.

(42) All certifications required by 3.104-9(e)(1).

(43) For contracts and contract modifications in excess of $100,000, a record of all persons or classes of persons authorized to have access to proprietary or source selection information and, to the maximum extent practicable, the names of all individuals w the class.

(b) *Contract administration office contract file.* Copy of the contract and all modifications, together official record copies of supporting documents execu the contract administration office.

(2) Any document modifying the normal assign of contract administration functions and responsibil

(3) Security requirements.

(4) Cost and pricing data, Certificates of C Cost or Pricing Data, cost or price analysis, and documentation supporting contractual actions exe by the contract administration office.

(5) Preaward survey information.

(6) Purchasing system information.

(7) Consent to subcontract or purchase.

(8) Performance and payment bonds and surety i mation.

(9) Postaward conference records.

(10) Orders issued under the contract.

(11) Notice to proceed and stop orders.

(12) Insurance policies or certificates of insuran references to them.

(13) Documents supporting advance or progress ments.

(14) Progressing, expediting, and production su lance records.

(15) Quality assurance records.

(16) Property administration records.

(17) Documentation regarding termination ac for which the contract administration office is resp ble.

(18) Cross reference to other pertinent docun that are filed elsewhere.

(19) Any additional documents on which action taken or that reflect actions by the contract admin tion office pertinent to the contract.

(20) Contract completion documents.

(c) *Paying office contract file.* (1) Copy of the con and any modifications.

(2) Bills, invoices, vouchers, and supporting d ments.

(3) Record of payments or receipts.

(4) Other pertinent documents.

4.804 Closeout of contract files.

4.804-1 Closeout by the office administering contract.

(a) Except as provided in paragraph (c) below, standards for closing out contract files are as follows:

(1) Small purchase files should be considered cl when the contracting officer receives evidence of re of property and final payment, unless otherwise sp fied by agency regulation.

(2) Files for all firm-fixed-price contracts other than small purchases should be closed within 6 months of the month in which the contracting officer receives evidence of physical completion.

(3) Files for contracts requiring settlement of indirect cost rates should be closed within 36 months of the month in which the contracting officer receives evidence of physical completion.

(4) Files for all other contracts should be closed within 20 months of the month in which the contracting officer receives evidence of physical completion.

(b) When closing out the contract files at 4.804-1(a)(2), (3), and (4), the contracting officer shall use the closeout procedures at 4.804-5. However, these closeout actions may be modified to reflect the extent of administration that has been performed. Quick closeout procedures (see 42.708) should be used, when appropriate, to reduce administrative costs and to enable deobligation of excess funds.

(c) A contract file shall not be closed if (1) the contract is in litigation or under appeal, or (2) in the case of a termination, all termination actions have not been completed.

4.804-2 Closeout of the contracting office files if another office administers the contract.

(a) Small purchase files should be considered closed when the contracting officer receives evidence of receipt of property and final payment, unless otherwise specified by agency regulation.

(b) All other contract files shall be closed as soon as practicable after the contracting officer receives a contract completion statement from the contract administration office. The contracting officer shall ensure that all contractual actions required have been completed and shall prepare a statement to that effect. This statement is authority to close the contract file and shall be made a part of the official contract file.

4.804-3 Closeout of paying office contract files.

The paying office shall close the contract file upon issuance of the final payment voucher.

4.804-4 Physically completed contracts.

(a) Except as provided in paragraph (b) below, a contract is considered to be physically completed when—

(1)(i) The contractor has completed the required deliveries and the Government has inspected and accepted the supplies;

(ii) The contractor has performed all services and the Government has accepted these services; and

(iii) All option provisions, if any, have expired; or

(2) The Government has given the contractor a notice of complete contract termination.

(b) Facilities contracts and rental, use, and storage agreements are considered to be physically completed when—

(1) The Government has given the contractor a notice of complete contract termination; or

(2) The contract period has expired.

4.804-5 Detailed procedures for closing out contract files.

(a) The office administering the contract is responsible for initiating (automated or manual) administrative closeout of the contract after receiving evidence of its physical completion. At the outset of this process, an initial contract funds status review shall be accomplished, and where appropriate, excess funds identified to the contracting office. When complete, the administrative closeout procedures shall ensure that—

(1) Disposition of classified material is completed;

(2) Final patent report is cleared;

(3) Final royalty report is cleared;

(4) There is no outstanding value engineering change proposal;

(5) Plant clearance report is received;

(6) Property clearance is received;

(7) All interim or disallowed costs are settled;

(8) Price revision is completed;

(9) Subcontracts are settled by the prime contractor;

(10) Prior year indirect cost rates are settled;

(11) Termination docket is completed;

(12) Contract audit is completed;

(13) Contractor's closing statement is completed;

(14) Contractor's final invoice has been submitted; and

(15) Contract funds review is completed and deobligation of any excess funds is recommended.

(b) When the actions in paragraph (a) above have been verified, the contracting officer administering the contract shall ensure that a contract completion statement, containing the following information, is prepared:

(1) Contract administration office name and address (if different from the contracting office).

(2) Contracting office name and address.

(3) Contract number.

(4) Last modification number.

(5) Last call or order number.

(6) Contractor name and address.

(7) Dollar amount of excess funds, if any.

(8) Voucher number and date, if final payment has been made.

(9) Invoice number and date, if the final approved invoice has been forwarded to a disbursing office of another agency or activity and the status of the payment is unknown.

(10) A statement that all required contract administration actions have been fully and satisfactorily accomplished.

(11) Name and signature of the contracting officer.

(12) Date.

(c) When the statement is completed, the contracting officer shall ensure that—

(1) The signed original is placed in the contracting office contract file (or forwarded to the contracting office for placement in the files if the contract administration office is different from the contracting office); and

(2) A signed copy is placed in the appropriate contract administration file if administration is performed by a contract administration office.

4.805 Disposal of contract files.

Agencies shall prescribe procedures for the handling, storing, and disposing of contract files. However, such procedures shall include provisions that the documents specified below shall not be destroyed before the times indicated:

Document	Retention Period
(a) Records pertaining to exceptions or protests, claims for or against the United States, investigations, cases pending or in litigation, or similar matters.	Until final clearance or settlement, or until the retention period otherwise specified for the document in paragraphs (b) through (n) below is completed, whichever is later.
(b) Signed originals of (1) contracts and (2) modifications thereto.	6 years and 3 months after final payment.
(c) Reserved.	
(d) Signed originals of justifications and approvals and determination and findings required by Part 6, and copies of supporting documents and data.	6 years and 3 months after final payment.
(e) Signed originals of small purchases and modifications thereto and construction contracts under $2,000.	3 years after final payment.
(f) All unsuccessful offers or quotations that pertain to contracts below the appropriate small purchase limitation in Part 13.	Retain 1 year after date of award or until final payment, whichever is later; but if the contracting officer determines that the files have future value to the Government, retain as long as advisable.
(g) Contract status (progressing), expediting, and production surveillance records.	6 months after final payment.
(h) Rejected engineering change proposals.	6 months after final payment.
(i) Labor compliance records, including equal employment opportunity records.	3 years after final payment.
(j) Documents pertaining generally to the contractor as described at 4.801(c)(3).	Until superseded or obsolete.
(k) Records or documents other than those in paragraphs 4.805(a)-(j) above pertaining to contracts below the appropriate small purchase limitation in Part 13.	1 year after final paym
(l) Records or documents other than those in paragraphs 4.805(a)-(k) above pertaining to contracts above the appropriate small purchase limitation in Part 13.	6 years and 3 months payment.
(m) Files for cancelled solicitations (see 4.801(c)(1)).	5 years after cancellatic
(n) Solicited and unsolicited unsuccessful offers and quotations above the appropriate small purchase limitation in Part 13.	
(1) When filed separately from contract case files.	Until contract completi
(2) When filed with contract case files.	6 years and 3 months payment.

SUBPART 4.9—INFORMATION REPORTI THE INTERNAL REVENUE SERVIC

4.900 Scope of subpart.

This subpart provides policies and procedure ble to contract and payment information report Internal Revenue Service (IRS).

4.901 Definitions.

"Common parent," as used in this subpart, n corporate entity that owns or controls an affiliate corporations that files its Federal income tax ret consolidated basis, and of which the offeror is a m

"Corporate status," as used in this subpart, me ignation as to whether the offeror is a corporate unincorporated entity (e.g., sole proprietorship c ship), or a corporation providing medical and h services.

"Taxpayer Identification Number (TIN)," as u subpart, means the number required by the IRS t by the offeror in reporting income tax and other r

4.902 General.

(a) 26 U.S.C. 6041 and 6041A, as implemen CFR, in part, require payors, including Government agencies, to report to the IRS paym to certain contractors.

(1) The following payments are exempt reporting requirement:

(i) Payments to corporations. Howe ments to corporations providing medical a care services or engaged in the billing and of payments for such services are not exem

(ii) Payments for bills for merchandise,

telephone, freight, storage, and similar charges.

(iii) Payments of income required to be reported on an IRS Form W-2 (e.g., contracts for personal services).

(iv) Payments to a hospital or extended care facility described in 26 CFR 501(c)(3) that is exempt from taxation under 26 CFR 501(a).

(v) Payments to a hospital or extended care facility owned and operated by the United States, a state, the District of Columbia, a possession of the United States, or a political subdivision, agency, or instrumentality of any of the foregoing.

(vi) Payments for any contract with a state, the District of Columbia, a possession of the United States, or a political subdivision, agency, or instrumentality of any of the foregoing.

(2) The following information is required to provide reports to IRS:

(i) Name, address, and TIN of contractor.

(ii) Corporate status (see 4.901).

(b) 26 U.S.C. 6050M, as implemented in 26 CFR, requires heads of Federal Executive agencies to report to the IRS the following information for certain contracts in excess of $25,000:

(1) Name, address, and TIN of contractor.

(2) Name and TIN of common parent (if any).

(3) Date of the contract action.

(4) Amount obligated on the contract action.

(5) Estimated contract completion date.

4.903 Procedures.

The information reported to the IRS under 4.902(b) will be transmitted using the Federal Procurement Data System (see Subpart 4.6 and implementing instructions). Requirements concerning information to be transmitted to paying offices are specified in 4.203.

4.904 Solicitation provision.

The contracting officer shall insert the provision at 52.204-3, Taxpayer Identification, in all solicitations, unless the TIN of each offeror has previously been obtained and is known.

42.708 Quick-closeout procedure.

(a) The contracting officer responsible for contract closeout may negotiate the settlement of indirect costs for a specific contract, in advance of the determination of final indirect cost rates, if—

(1) The contract is physically complete;

(2) The amount of unsettled indirect cost to be allocated to the contract is relatively insignificant; and

(3) Agreement can be reached on a reasonable estimate of allocable dollars.

(b) Determinations of final indirect costs under the quick-closeout procedure provided for by the Allowable Cost and Payment clause at 52.216-7 or 52.216-13 shall be final for the contract it covers and no adjustment shall be made to other contracts for over- or under-recoveries of costs allocated or allocable to the contract covered by the agreement.

(c) Indirect cost rates used in the quick closeout of a contract shall not be considered a binding precedent when establishing the final indirect cost rates for other contracts.

SUBPART 45.6—REPORTING, REDISTRIBUTION, AND DISPOSAL OF CONTRACTOR INVENTORY

45.600 Scope of subpart.

This subpart establishes policies and procedures for the reporting, redistribution, and disposal of Government property excess to contracts and of property that forms the basis of a claim against the Government (e.g., termination inventory under fixed-price contracts). This subpart does not apply to the disposal of real property or to property for which the Government has a lien or title solely as a result of advance or progress payments that have been liquidated.

45.601 Definitions.

"Common item," as used in this subpart, means material that is common to the applicable Government contract and the contractor's other work.

"Contractor-acquired property" (see 45.101).

"Contractor inventory," as used in this subpart, means—

(a) Any property acquired by and in the possession of a contractor or subcontractor under a contract for which title is vested in the Government and which exceeds the amounts needed to complete full performance under the entire contract;

(b) Any property that the Government is obligated or has the option to take over under any type of contract as a result either of any changes in the specifications or plans thereunder or of the termination of the contract (or subcontract thereunder), before completion of the work, for the convenience or at the option of the Government; and

(c) Government-furnished property that exceeds the amounts needed to complete full performance under the entire contract.

"Government-furnished property" (see 45.101).

"Government property" (see 45.101).

"Line item," as used in this subpart, means a single line entry on a reporting form that indicates a quantity of property having the same description and condition code from any one contract at any one reporting location.

"Personal property," as used in this subpart, means property of any kind or interest in it except real prop-

erty, records of the Federal Government, and naval vessels of the following categories: battleships, cruisers, aircraft carriers, destroyers, and submarines.

"Plant clearance," as used in this subpart, means all actions relating to the screening, redistribution, and disposal of contractor inventory from a contractor's plant or work site. The term "contractor's plant" includes a contractor-operated Government facility.

"Plant clearance officer," as used in this subpart, means an authorized representative of the contracting officer assigned responsibility for plant clearance.

"Plant clearance period," as used in this subpart, means the period beginning on the effective date of contract completion or termination and ending 90 days (or such longer period as may be agreed to) after receipt by the contracting officer of acceptable inventory schedules for each property classification. The final phase of the plant clearance period means that period after receipt of acceptable inventory schedules.

"Plant equipment" (see 45.101).

"Precious metals," as used in this subpart, means uncommon and highly valuable metals characterized by their superior resistance to corrosion and oxidation. Included are silver, gold, and the platinum group metals—platinum, palladium, iridium, osmium, rhodium, and ruthenium.

"Property administrator" (see 45.501).

"Public body" means any State, Territory, or possession of the United States, any political subdivision thereof, the District of Columbia, the Commonwealth of Puerto Rico, any agency or instrumentality of any of the foregoing, any Indian tribe, or any agency of the Federal Government.

"Real property" (see 45.101).

"Reportable property," as used in this subpart, means contractor inventory that must be reported for screening in accordance with this subpart before disposition as surplus.

"Reporting activity," as used in this subpart, means the Government activity that initiates the Standard Form 120, Report of Excess Personal Property (or when acceptable to GSA, by data processing output).

"Salvage" (see 45.501).

"Scrap" (see 45.501).

"Screening completion date," as used in this subpart, means the date on which all screening required by this subpart is to be completed. It includes screening within the Government and the donation screening period.

"Serviceable or usable property," as used in this subpart, means property that has a reasonable prospect of use or sale either in its existing form or after minor repairs or alterations.

"Special test equipment" (see 45.101).

"Special tooling" (see 45.101).

"Surplus property," as used in this subpart, means contractor inventory not required by any Federal agency.

"Surplus Release Date (SRD)," as used in this subpart, means the date on which screening of personal property for Federal use is completed and the property is not needed for any Federal use. On that date, property becomes surplus and is eligible for donation.

"Termination inventory," as used in this subpart, means any property purchased, supplied, manufactured, furnished, or otherwise acquired for the performance of a contract subsequently terminated and properly allocable to the terminated portion of the contract. It includes Government-furnished property. It does not include any facilities, material, special test equipment, or special tooling that are subject to a separate contract or to a special contract requirement governing their use or disposition.

"Work-in-process" (see 45.501).

45.602 Reserved.

45.603 Disposal methods.

An agency may exercise its rights to require delivery of any contractor inventory. If the agency does not exercise these rights, the contractor inventory shall be disposed of by one of the following methods in the priority indicated:

(a) Purchase or retention at cost by prime contractor or subcontractor of contractor-acquired property (see 45.605-1).

(b) Return of contractor-acquired property to suppliers (see 45.605-2).

(c) Use within the Government through the use of prescribed screening procedures (see 45.608).

(d) Donation to eligible donees (see 45.609).

(e) Sale (including purchase or retention at less than cost by the prime contractor or subcontractor)(see 45.610).

(f) Donation to public bodies in lieu of abandonment (see 45.611).

(g) Abandonment or destruction (see 45.611).

45.604 Restrictions on purchase or retention of contractor inventory.

A contractor's or subcontractor's authority to purchase, retain, or dispose of contractor inventory is subject to any contract provisions and to applicable Government restrictions on the disposition of property that is classified for security reasons, possesses military offensive or defensive characteristics, or is dangerous to public health, safety, or welfare.

45.605 Contractor-acquired property.

45.605-1 Purchase or retention at cost.

(a) The plant clearance officer shall encourage contractors to purchase or retain contractor-acquired property at cost. However, the contractor shall not include any part of the cost of property purchased or retained in any claim for reimbursement against the Government. Under cost-reimbursement contracts, appropriate adjustments shall be made for previously reimbursed costs. When the property is for use on a continuing

or otherwise acquired for the performance of a contract subsequently terminated and properly allocable to the terminated portion of the contract. It includes Government-furnished property. It does not include any facilities, material, special test equipment, or special tooling that are subject to a separate contract or to a special contract requirement governing their use or disposition.

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(b) Return of contractor-acquired property to suppliers (see 45.605-2).

(c) Use within the Government through the use of prescribed screening procedures (see 45.608).

(d) Donation to eligible donees (see 45.609).

(e) Sale (including purchase or retention at less than cost by the prime contractor or subcontractor)(see 45.610).

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(b) If a contractor purchases or retains contractor inventory for use on a continuing Government contract that is subsequently terminated, the property shall be allocated to the continuing contract, even though its purchase would otherwise constitute undue anticipation of production schedules. If, as a result of the purchase or retention of property from a terminated contract for use on other Government contracts, the contractor terminates subcontracts under the other Government contracts, reasonable termination charges of the subcontracts may be included as an allocable cost under the contract that generated the excess property.

45.605-2 Return to suppliers.

The plant clearance officer shall encourage contractors to return allocable quantities of contractor-acquired property to suppliers for full credit less either the supplier's normal restocking charge or 25 percent of the cost, whichever is less. Contractors may be reimbursed for reasonable transportation, handling, and restocking charges, but not for the cost of the returned property. Under cost-reimbursement contracts, appropriate adjustments shall be made for costs previously reimbursed. A contractor's property control system shall include procedures to ensure property is returned to the supplier for appropriate credit whenever feasible.

45.605-3 Cost-reimbursement contracts.

Under cost-reimbursement contracts, property purchased or retained by the contractor or returned to suppliers shall not be reported on inventory schedules. The cognizant contract administration office, in coordination with the cognizant auditor, shall periodically review such transactions to protect the Government's interests.

45.606 Inventory schedules.

45.606-1 Submission.

(a) When property is no longer needed to perform the contract, the contractor shall prepare inventory schedules in accordance with the contract and instructions from the plant clearance officer and shall promptly submit the schedules to the cognizant contract administration office. Detailed instructions and requirements governing preparing and submitting inventory schedules are contained in 45.606-5. Agencies may use special inventory schedules for intra-agency screening of particular categories of contractor inventory (e.g., plant equipment of $5,000 or more). Such schedules may also be used for screening with other Federal agencies after coordination with GSA.

(b) The certificate on the inventory schedule must be executed when contractor inventory is reported. The person signing the certificate must have authority to contractually obligate the contractor. The prime contractor shall execute this certificate, except that for subcontractor termination inventory the subcontractor shall execute the certificate.

45.606-2 Common items.

The contractor's inventory schedules shall not include any items that the contractor can reasonably use on other work without financial loss. However, the schedules shall include common items specified by the contracting officer for delivery to the Government or which are Government-furnished property.

45.606-3 Acceptance.

(a) Within 15 days after receipt of inventory schedules, the plant clearance officer shall review them, determine their acceptability, and request the contractor to correct any inadequate listings. Inventory schedules should not be rejected if the information is adequate for disposal purposes, even if complete cost data on work-in-process are not available. Rejection shall be limited, when possible, to specific items and shall not necessarily render the entire schedule unacceptable. If substantial errors are discovered that were not apparent on termination inventory schedules previously found acceptable, the final phase of a plant clearance period shall not begin until corrected schedules have been submitted, unless the plant clearance officer determines otherwise.

(b) The plant clearance officer, with the assistance of other Government personnel as necessary, shall verify that (1) the inventory is present at the location indicated, (2) the inventory is allocable to the contract, (3) the quantity and condition are correctly stated, and (4) the contractor has endeavored to divert items to other work. The verification may be recorded on SF 1423, Inventory Verification Survey. The plant clearance officer shall require the contractor to promptly correct any discrepancies on the inventory schedule or resubmit the schedule as necessary.

45.606-4 Withdrawals.

If, before final disposition, the contractor becomes aware that any items of contractor-acquired property listed in the inventory schedules are usable on other work without financial loss, the contractor shall purchase the items or retain them at cost and amend the inventory schedules and claim accordingly. Upon notifying the plant clearance officer, the contractor may purchase or retain at cost any other items of property included in the inventory schedules. Withdrawal of any Government-furnished property is subject to the written approval of the plant clearance officer. If withdrawal is requested after screening has started, the plant clearance officer shall notify immediately the appropriate screening activity.

45.606-5 Instructions for preparing and submitting schedules of contractor inventory.

(a) *Use of forms.* The contractor shall report contractor inventory on the following forms, as appropriate.

(1) *Standard Form 1426, Inventory Schedule A (Metals in Mill Product Form) and SF 1427, Inventory Schedule A—Continuation Sheet.* These forms are t used to list metals in raw or primary form as furni by the mill and on which there has been no subseq fabricating operations. They are also to be used for ing nonmetallic materials, such as plastics, rubbe lumber, in mill product form. They are not to be for listing castings or forgings, which shall be repo on SF 1428.

(2) *Standard Form 1428, Inventory Schedule B SF 1429, Inventory Schedule B—Continuation Sh* These forms are to be used to list all contractor inve ry (including plant equipment) for which Stan Forms 1426, 1430, 1432, or 1434 are not appropr However, agencies may direct listing of particular gories of plant equipment on agency forms when dard forms are not appropriate. (See 45.505-6 45.606-1(a).)

(3) *Standard Form 1430, Inventory Schedu (Work in Process) and SF 1431, Inventory Sche C—Continuation Sheet.* These forms are to be us list all work in process.

(4) *Standard Form 1432, Inventory Schedu (Special Tooling and Special Test Equipment) an 1433, Inventory Schedule D—Continuation S* These forms are to be used to list such contractor i tory as dies, jigs, gauges, fixtures, special tools, and cial test equipment.

(5) *Standard Form 1434, Termination Inven Schedule E.* This is a short form to be used wit 1438, Settlement Proposal (Short Form). Applica is limited to termination settlement proposals \$10,000.

(b) *Submission.*

(1) Contractors shall report contractor inve promptly after determining it to be excess, unless a date is authorized by the contract or the plant clea officer.

(2) Unless contract provisions or agency regul prescribe otherwise, 12 copies of inventory sche listing serviceable or salvable items and 6 copi inventory schedules listing scrap items shall be pr ed to the plant clearance officer at the cognizant co administration office.

(3) The standard inventory schedule forms m reproduced by contractors, provided no change is in size or format. Machine listings may be submi all essential elements of data are included and the a priate signed standard form is submitted as a sheet.

(4) The appropriate continuation sheet shall be when more than one page is needed.

(5) Partial schedules may be submitted when cover substantial portions of a particular property fication of contractor inventory. The first page o schedule submitted shall be identified as partial o in the title block of the schedule.

(6) The contractor should consult with the plant clearance officer when in doubt as to item descriptions or other inventory schedule requirements.

(c) *Grouping contractor inventory for reporting purposes.* All line items of contractor inventory shall be grouped into the following categories in the order indicated and reported on separate forms (line items may not be divided for the purpose of avoiding screening requirements):

(1) *Classified property.* This category includes all property bearing a security classification, regardless of acquisition cost. Classified property should be further subdivided into the same categories as unclassified property (see paragraph (3) of this subsection).

(2) *Government-furnished property.* This category should be subdivided into the same categories as unclassified property (see paragraph (3) of this subsection).

(3) *Unclassified property.* Unclassified property shall be subdivided as follows:

(i) Special tooling, regardless of acquisition cost.

(ii) Scrap, regardless of acquisition cost.

(iii) Salvage, regardless of acquisition cost.

(iv) Remaining property having a line item acquisition cost of less than $1,000 ($500 for furniture).

(v) Property having a line item acquisition cost of $1,000 or more ($500 for furniture), further separated into the following categories (these categories may be revised to suit agency needs):

(A) Aeronautical material and equipment.

(B) Electronic material and equipment.

(C) Special test equipment.

(D) Other serviceable or usable property.

(d) *General instructions for completing forms.* The inventory schedule forms are self-explanatory, except for the following general instructions and the specific instructions in paragraph (e) of this subsection.

(1) If the inventory applies solely to one contract modification, indicate the contract modification number in the same block as the prime contract number. If the inventory results from the termination of a contract, enter the termination docket number in the same block as the prime contract number.

(2) Provide in column b an accurate and complete commercial description for each item of serviceable contractor inventory. Where practical, show the manufacturer's name, address, and catalog number. Describe other items in sufficient detail to permit the Government to determine appropriate disposition. Include in descriptions for all line items the National Stock Number furnished to the contractor with Government-furnished property and the National Stock Number available in the contractor's property control system.

(3) Identify in column b any industrial diamonds, diamond swarf, and property containing economically recoverable quantities of precious metals by the type of metal and express the quantity of the metal in the appropriate weight unit or in the percentage of total content. In addition, hazardous material or property contaminated with hazardous material shall be identified as to the type of hazardous material.

(4) Enter in column c one of the following codes to indicate the condition of each item of material:

Code 1, Unused-good. Unused property that is usable without repairs and identical or interchangeable with new items from normal supply sources.

Code 2, Unused-fair. Unused property that is usable without repairs, but is deteriorated or damaged to the extent that utility is somewhat impaired.

Code 3, Unused-poor. Unused property that is usable without repairs, but is considerably deteriorated or damaged. Enough utility remains to classify the property better than salvage.

Code 4, Used-good. Used property that is usable without repairs and most of its useful life remains.

Code 5, Used-fair. Used property that is usable without repairs, but is somewhat worn or deteriorated and may soon require repairs.

Code 6, Used-poor. Used property that may be used without repairs, but is considerably worn or deteriorated to the degree that remaining utility is limited or major repairs will soon be required.

Code 7, Repairs required-good. Required repairs are minor and should not exceed 15 percent of original acquisition cost.

Code 8, Repairs required-fair. Required repairs are considerable and are estimated to range from 16 percent to 40 percent of original acquisition cost.

Code 9, Repairs required-poor. Required repairs are major because property is badly damaged, worn, or deteriorated, and are estimated to range from 41 percent to 65 percent of original acquisition cost.

Code X, Salvage. Property has some value in excess of its basic material content, but repair or rehabilitation to use for the originally intended purpose is clearly impractical. Repair for any use would exceed 65 percent of the original acquisition cost.

Code S, Scrap. Material that has no value except for its basic material content.

(5) Enter in columns e and f the standard or invoiced cost of the material being reported. If such data are not available, enter the estimated cost, identified by the symbol "(e)".

(6) Enter after the amount of the contractor's offer in column g the letter "A" if a credit for acquisition has been authorized or approved by the plant clearance officer. Enter the letter "C" if the amount represents your offer to acquire the item. In either case, enter the quantity on a second line if it is less than the full quantity shown in column d.

(e) *Instructions for completing specific forms.* The following instructions are in addition to the general instruc

tions in paragraph (d) of this subsection and the self-explanatory blocks onthe inventory forms.

(1) *Inventory Schedule A (Metals in Mill Product Form) (SF 1426).*

(i) *Classification.* List each type of metal (such as aluminum or carbon steel) on a separate form, with the name or alloy shown in the Property Classification block. List like forms of the metal or alloy together in sequence. (For example, for carbon steel, group all the strip, followed by sheets, followed by the bar stock, etc.)

(ii) *Description.* Enter in column b the full commercial description and weight for all items. Identify the material specification entered in column b2 as either a Government specification or that of a particular industrial society or manufacturer. Complete columns b3, b4, and b5 to show the thickness, width, and length.

(2) *Inventory Schedule B (SF 1428).*

(i) *Classification.* Use a separate form for each classification. Enter the name of the classification in the Property Classification block. Items having no commercial value should be placed in a single classification designated "no commercial value." The term "raw materials (other than metals)" means material in primary form. Examples are plastics, textiles, lumber, and chemicals. Arrange items in sequence under separate subheadings. For example, under the classification "chemicals," group separately all acids, all alkalis, all resins, etc.

(ii) *Description.* In the inventory description for plant equipment (see 45.101 for definition), include the following as a minimum:

(A) Nomenclature or description of the item and Federal Supply Classification (see Cataloging Handbooks H2-1, H2-2, and H2-3).

(B) Federal Supply Code for Manufacturers (see Cataloging Handbooks H4-1 and H4-2) and, if available in the contractor's property control system, the name and address of the equipment manufacturer.

(C) Model/part number.

(3) *Inventory Schedule C (Work-in-Process) (SF 1430).*

(i) *Classification.* No classification of items is required. Do not list finished components on this form (use SF 1428).

(ii) *Description.* Enter in column b a description in sufficient detail to permit the Government to determine the appropriate disposition. Estimate percentage of completion for each line item.

(iii) *Condition* (column c). Generally, conditions X (salvage) or S (scrap) are applicable to work-in-process (see paragraph (d)(4) of this subsection).

(4) *Inventory Schedule D (Special Tooling and Special Test Equipment) (SF 1432).*

(i) *Classification.* Use a new form for each general classification of special tooling and special test equipment.

(ii) *Description.* Furnish a description which will enable the plant clearance officer or screener to determine the appropriate disposition, including the potential for reutilization. Include tool nomenclature, tool number, related product part number, and function which the tool performs. Designate special tooling usable for maintenance programs by placing the letter "M" in the left-hand column, "For Use of Contracting Agency Only." Provide the end-item application and a brief description of the test function for each unit of special test equipment.

(5) *Termination Inventory Schedule E (SF 1434).*

(i) *Classification.* No special classification is required, but similar items should be grouped together. Several classifications may be listed on one form.

(ii) *Description.* Enter in column b the full commercial description of all items which have commercial value. For other items, furnish a description in sufficient detail to permit the Government to determine the appropriate disposition.

45.607 Scrap.

45.607-1 General.

(a) The contractor need not itemize scrap on inventory schedules if (1) the material is physically segregated in the contractor's plant and (2) the contractor submits a statement describing the material, estimating its cost, and providing other information necessary for the plant clearance officer to verify whether the property is scrap. The contractor shall sort the scrap to the extent economically feasible to assure the highest sale proceeds.

(b) The plant clearance officer shall review the schedules of property reported as scrap and, if necessary, physically inspect the property involved. If the plant clearance officer determines that any of the property is serviceable, usable, or salvable, the contractor shall resubmit it on appropriate inventory schedules.

45.607-2 Recovering precious metals.

(a) GSA is responsible for initiating the Government-wide precious metals recovery program (see FPMR 101-42.3 for procedures and requirements in recovering precious metals).

(b) Agencies shall assure that contractors generating contractor inventory containing precious metal-bearing scrap identify and promptly report such items. Agencies are also responsible for establishing and maintaining a program for recovering precious metals. Agencies having no recovery and disposal facility available may request information or recovery assistance from the GSA regional office.

serving the area or the DOD Precious Metals Recovery Program Manager, Attention DLA-SIP, Cameron Station, Alexandria, VA 22314.

(c) Precious metals shall be packaged in nonporous, smooth containers in a manner to prevent loss through leakage or damage to the containers. (Glass containers shall not be used.) Grindings or sweepings shall not be packaged in paper or wooden containers, because loss occurs by adhesion to the containers. Containers shall be marked to show the type of precious metals.

(d) The shipping document shall indicate the net weight of each item to the nearest ounce (troy or avoirdupois). Shipment shall be made by the most economical means available, consistent with adequate safeguards to prevent loss or theft.

45.608 Screening of contractor inventory.

45.608-1 General.

(a) Serviceable or usable property included in the contractor's inventory schedules that is not purchased or retained by the prime contractor or subcontractor or returned to suppliers shall be screened for use by Government agencies before disposition by donation or sale. Agencies shall assure the widespread dissemination of information concerning the availability of contractor inventory.

(b) There are four categories of screening: standard, agency, limited, and special items. The plant clearance officer shall determine the categories of screening required, initiate prescribed screening, and assure accomplishment of transfer and donation. Table 45-1 lists the type of property and screening period for each of these categories. When circumstances warrant, the plant clearance officer may extend the period for agency screening or arrange for more extensive screening than that prescribed. In the event of a conflict between Table 45-1 and a specific contract requirement, items shall be screened as provided by the contract.

Table 45-1

Screening Requirements by Type of Property

Screening Categories	Type of Property	Period
Standard	Line items valued at $1,000 or more ($500 for furniture).	90 days/(see 45.608-2)
Agency	Special tooling, perishables, property bearing a security classification, property dangerous to public health and safety, regardless of acquisition cost, and agency-peculiar property.	30 days/(see 45.608-3)

Table 45-1—Continued

Screening Requirements by Type of Property

Screening Categories	Type of Property	Period
Limited	Special tooling, scrap and salvage, property in condition codes 3, 6, 9, X, and S, work-in-process, inventory schedules (the total acquisition cost of which is reported as $2,500 or less), and line items of less than $1,000 ($500 for furniture) (except perishables, property bearing a security classification, and property dangerous to public health and safety).	30 days/(see 45.608-4)
Special Items	Special test equipment with standard components.	(see 45.608-5(a))
	Special test equipment without standard components.	(see 45.608-5(b))
	Printing equipment.	(see 45.608-5(c))
	Automatic data processing equipment.	(see 45.608-5(d))
	Nuclear materials.	(see 45.608-5(e))

45.608-2 Standard screening.

(a) Standard screening applies to serviceable property with a line item value of $1,000 or more ($500 for furniture) that does not meet the criteria for another screening category.

(b) Standard screening begins on the date the plant clearance officer receives acceptable contractor inventory schedules and ends 90 days thereafter. The period is broken into three phases as follows:

(1) *1st through 30th day—screening by the contracting agency.* The agency shall screen the listed items for its use. When screening is completed, the plant clearance officer shall delete the retained items from the schedules.

(2) *31st through 75th day—screening by all Federal agencies.* Not later than the 31st day, the plant clearance officer shall send four copies of the revised schedules and Standard Form (SF) 120, Report of Excess Personal Property, to the General Services Administration (GSA) regional office that serves the region in which the property is located. If the plant clearance officer receives a request for property transfer after submission of the SF 120, and before receiving a GSA property transfer order, a prompt request shall be forwarded to GSA for approval to withdraw the item from the inventory schedule. The regional GSA offic

will prepare and issue circulars and catalogs to all Federal agencies within the region. GSA will honor requests for transfer of property on a "first-come first-served" basis through the 75th day. The GSA regional office will transmit to the plant clearance officer the approved orders and shipping instructions for property to be transferred. The 75th day is the surplus release date and will be shown on the SF 120. The plant clearance officer may not extend this date.

(3) *76th through 90th day—screening by GSA for possible donation.* During this period, GSA will arrange for screening of all remaining property for possible donation to eligible donees. Procedures for donation are in 45.609. The 90th day is the screening completion date and will be shown on the SF 120. The plant clearance officer shall not extend this date.

45.608-3 Agency screening.

Agency screening is the procedure for screening certain types of property (see Table 45-1) only within the contracting agency. The screening period begins on the date the plant clearance officer receives acceptable inventory schedules and ends 30 days later.

45.608-4 Limited screening.

(a) Items that are scrap or salvage or that otherwise have a limited potential for use (except special tooling) are not ordinarily subject to standard or agency screening. The plant clearance officer shall include listings of such property in a special file, which shall be made available to GSA for limited screening. The screening period for such property begins on the date the plant clearance officer receives acceptable inventory schedules and ends 30 days later. This period is apportioned into two phases, as follows:

(1) 1st through 15th day—GSA selection of items for Federal utilization.

(2) 16th through 30th day—GSA selection of items for donation.

(b) For special tooling, the screening period described in paragraph (a) above begins upon completion of agency screening.

45.608-5 Special items screening.

Special procedures are established for the following types of property:

(a) *Special test equipment with standard components.* (1) Contractors reporting special test equipment that contains standard, general, or multipurpose components will describe the composite unit to clearly reflect its capability. Standard components that can be economically removed and reused will be listed and described in sufficient detail to permit screening.

(2) If the contractor has a requirement for the standard components to meet other approved special test equipment or facilities requirements, the contractor shall annotate the SF 1432, Inventory Schedule D (Special Tooling and Special Test Equipment), to reflect this requirement. Screening shall be accomplished in accordance with agency procedures for the first 30 days. If there are no agency requirements for the composite unit, and if the administrative contracting officer approves the retention, the contractor shall have priority for the standard components for which it has indicated a requirement.

(3) Standard components that have not been retained by the agency or the contractor shall be screened in accordance with standard requirements for the 31st through 75th day. Standard components shall not be removed from the composite unit until a requirement has been established. If no requirements exist, the composite units shall be donated or sold in accordance with prescribed procedures.

(b) *Special test equipment without standard components.* Special test equipment without standard components shall receive agency screening for 30 days. Items for which no requirements exist shall receive limited screening for an additional 30 days.

(c) *Printing equipment.* Agencies shall report all printing equipment excess to their requirements to the Public Printer, Government Printing Office, North Capitol and H Streets, NW, Washington, DC 20401, after screening within the agency (see 44 U.S.C. 312). If the Public Printer indicates no requirements, the reporting activity shall submit the listing of printing equipment to the General Services Administration for further use and donation screening.

(d) *Procedures for automatic data processing equipment (ADPE).* See the FIRMR (41 CFR part 201-33).

(e) *Nuclear materials.* (1) The possession, use, and transfer of certain nuclear materials are subject to the regulatory controls of the Nuclear Regulatory Commission (NRC). The materials are defined as follows:

(i) By-product material—any radioactive material (except special nuclear material) yielded in or made radioactive by exposure to the radiation incident to producing or using special nuclear material.

(ii) Source material—uranium or thorium, or any combination thereof, in any physical or chemical form; or ores which contain by weight one-twentieth of 1 percent (0.05 percent) or more of uranium, thorium, or any combination thereof. Source material does not include special nuclear material.

(iii) Special nuclear material—plutonium, uranium 233, uranium enriched in the isotope 233 or in the isotope 235, and any other material that the NRC determines to be special nuclear material (but not including source material); or any material artificially enriched by any nuclear material.

(2) Plant clearance officers shall submit listings of excess nuclear material in the categories described

above for screening by the contracting activity. If there are no requirements, the ultimate method of disposal shall be dependent upon the license issued by the NRC or the respective states and pertinent Federal and agency regulations.

45.608-6 Waiver of screening requirements.

Agency heads or their designees may authorize exceptions from screening requirements; *provided*, (a) there are compelling circumstances clearly in the Government's interest, and (b) the contracting agency prepares a written notice, including justification, and provides a copy to the Administrator, General Services Administration, and the contract administration office 10 days before the effective date of the exception.

45.608-7 Reimbursement of costs for transfer of contractor inventory.

The contracting agency shall not be reimbursed for the acquisition cost of any property selected by another agency or for overhead or administrative costs associated with such property. The transferee will pay any transportation costs that are not the contractor's responsibility. Costs for packing, crating, preparation for shipment, and loading of contractor inventory are chargeable to the contract for assets subject to the Government property clauses at 52.245-2, Government Property (Fixed-Price Contracts), and 52.245-5, Government Property (Cost-Reimbursement, Time-and-Material, or Labor-Hour Contracts), and such costs are ordinarily included in the contractor's settlement proposal for termination inventory. The transferee will pay such costs for property subject to 52.245-7, Government Property (Consolidated Facilities), or 52.245-10, Government Property (Facilities Acquisition), or 52.245-11, Government Property (Facilities Use), unless such costs are otherwise the contractor's responsibility. The contract administration office is responsible for obtaining packing, crating, and handling services. To accelerate plant clearance, the transferee shall include all appropriate data, including funding data, in the transfer or shipping document.

45.608-8 Report of excess personal property (SF 120).

(a) This subsection provides instructions for completing SF 120, Report of Excess Personal Property, when reporting contractor inventory in accordance with 45.608-2. For reporting other agency excess personal property, see 41 CFR 101-43.4901-120-1, Instructions for Preparing SF 120.

(b) All items on the form are self-explanatory, except as follows:

Item 1, Report number. Enter the serial number of the report and any other identifying number or symbol required by the reporting agency. If the report is a correction or withdrawal (complete or partial) of a prior report, the original report number shall be entered, followed by the letter a, b, or c, etc., to identify the number of successive correcting or withdrawing reports.

Item 3, Total cost. Enter the total of all amounts shown on the inventory schedules.

Item 4, Type of report.

Box b—Check if necessary to correct an original report and complete items 1, 2, 3, 4, 5, and 7. Complete the remaining items only to the extent necessary to show the correction.

Box c—Check for partial withdrawals of contractor inventory previously reported and complete items 1, 2, 3, 4, 5, and 7. Re-identify in column 18(b) the line items or portions of line items withdrawn. In column 18(e), show the number of units withdrawn. In column 18(g), show the acquisition cost of the units withdrawn. In item 3, enter the total acquisition cost of all items withdrawn.

Box d—Check for total withdrawal of contractor inventory previously reported and complete items 1, 2, 3, 4, 5, and 7. Provide explanatory remarks in column 18(b).

Item 5, To. Enter the name(s) address(es) of the screening agencies or the GSA regional office serving the geographic area in which the property is located.

Item 6, Appropriation or fund to be reimbursed. No entry shall be made in this item if the net proceeds are to be deposited in the Treasury as miscellaneous receipts (see 45.610-3). However, in exchange/sale transactions an appropriation number is required.

Item 8, Report approved by. Enter signature and title of the Federal official approving report.

Item 12, GSA control number. Not to be used by reporting activity.

Item 13, FSC group number, if known. If inventory schedules contain multiple FSC groups, insert "See Inventory Schedules."

Item 14, Location of property. Enter the name of contractor holding the property and the specific address where the property is located.

Item 15, Reimbursement required. Enter X in the block designated "No."

Item 16, Agency control number. Leave blank.

Item 17, Surplus release date (see 45.608-2).

Item 18, Excess property list. Leave blank.

Column a, Item number. Leave blank.

Column b, Description. Enter the following information:

(1) Identification of attached inventory schedules and the number of pages for each schedule.

(2) The screening completion date (see 45.608-2).

(3) The following notation: "It is imperative that fund appropriations for the transportation of the materials be furnished with the transfer order." If, pursuant to 45.608-7, the transferee is responsible for funding, packing, crating, and handling, include this additional notation: "Fund appropriations for packing, crating, and

handling of inventory described herein must also be provided by the transferee."

(4) Contract number.

(5) When reporting motor vehicles in Federal Supply Groups 23, 24, and 38—

(i) In column 18(b), the estimated one-time cost of repairs (parts and labor); and

(ii) In column 18(c), a condition code based on the estimated cost of repairs.

(c) Columns c through h. Leave blank, except as they are used for subparagraph (5)(ii) of this subsection.

45.609 Donations.

(a) Property may be donated only after it has been determined to be surplus following appropriate utilization screening. The donation of surplus property to an authorized donee is subordinate to any need for property by a Federal agency.

(b) The GSA is responsible for making necessary arrangements for donation screening of serviceable property during the last 15 days of the 90-day screening period.

(c) Items that have been selected for donation shall not be retained longer than 42 calendar days from the surplus release date. The plant clearance officer shall authorize release to the eligible donees immediately upon receipt of GSA approval and shipping instructions. If approval and shipping instructions, including provision for payment of all costs incident to donation, are not received within the 42-day period, the property shall be otherwise disposed of as surplus. All costs incident to donation that are not the responsibility of the contractor shall be borne by the donee.

(d) Agencies having a current essential requirement may withdraw property undergoing donation screening. In all other cases, property may be withdrawn only after GSA concurrence.

45.610 Sale of surplus contractor inventory.

45.610-1 Responsibility.

(a) The Administrator, GSA, exercises general supervision and direction over the disposition of surplus personal property, including sales of surplus contractor inventory. Policy and procedures for sales of contractor inventory are contained in the Federal Property Management Regulations (FPMR) 41 CFR Part 101-45. Sales of contractor inventory under the control of the Department of Defense are conducted in accordance with the DOD Supplement to the FAR.

(b) Reportable property submitted to GSA on SF 120 for utilization screening and not otherwise transferred or donated will automatically be programmed for sale by the GSA regional office.

(c) All other property requiring sale shall be reported to GSA on SF 126, Report of Personal Property for Sale, and in accordance with any additional instructions provided by the GSA regional office cognizant of the location where the property is physically located.

45.610-2 Exemptions from sale by GSA.

(a) Agency heads may seek exemptions from the Administrator, GSA, by submitting a letter explaining the impairment or adverse effect of sale by GSA and justifying the need for the exemption.

(b) GSA regional offices may authorize sale by the reporting activity of perishable items or small lots of limited-value property at isolated locations.

45.610-3 Proceeds of sale.

Proceeds of any sale are to be credited to the Treasury of the United States as miscellaneous receipts, except where the contract or any subcontract thereunder authorizes the proceeds to be credited to the price or cost of the work (40 U.S.C. 485(a) and (e)).

45.610-4 Contractor inventory in foreign countries.

Contractor inventory located in foreign countries shall be sold or disposed of in accordance with agency procedures (see 40 U.S.C. 511-514).

45.611 Destruction or abandonment.

(a) Surplus property may be destroyed or abandoned only after every effort has been made to dispose of it by other authorized methods. Before authorizing destruction or abandonment, the plant clearance officer shall determine in writing that—

(1) The property has no commercial value and no value to the Government;

(2) The estimated cost of care and handling is greater than the probable sale price; or

(3) Because of its nature, the property constitutes a danger to public health, safety, or welfare.

(b) Unless permitted by the contract, no contractor inventory shall be abandoned on the contractor's premises without the contractor's written consent.

(c) Surplus property for which a determination has been made under subparagraph (a)(1) or (2) of this section may, however, be donated to public bodies in lieu of abandonment or destruction. All costs incident to donation shall be borne by the donee.

45.612 Removal and storage.

45.612-1 General.

Contractor inventory shall be removed from the contractor's premises as soon as possible to preclude storage expenses.

45.612-2 Special storage at the contractor's risk.

When the contractor finds it necessary to remove property from the premises before expiration of the plant clear-

ice period, the contractor may, with the concurrence of the plant clearance officer, store property in a warehouse or other storage location on or off the contractor's premises. Storage shall in no way modify the contractor's responsibility for the property. The expense of storage, including any cost incident to the transportation to and from the storage area, shall normally be borne by the contractor and shall not be charged directly or indirectly to Government contracts unless the contracting officer determines that the storage is for the convenience of the Government.

45.612-3 Special storage at the Government's expense.

(a) Contractor inventory may be stored at the Government's expense only when the contracting officer determines that it should be retained in storage for anticipated use.

(b) When the plant clearance officer recommends that the contracting office execute a storage agreement with the contractor, the request shall be accompanied with adequate data to justify the agreement (e.g., property to be stored, storage period, and cost to the Government).

(c) If the contractor will not agree to storage on its premises, the plant clearance officer shall submit adequate information to permit a decision by the contracting office for storage on a Government or commercial facility (e.g., storage space required; necessary packing, crating, and shipping services; and information as to available Government or commercial storage facilities in the local area).

45.613 Property disposal determinations.

Written determinations supporting abandonment, destruction, or other appropriate disposition shall be made by the plant clearance officer and reviewed by an appropriate reviewing authority within the agency.

45.614 Subcontractor inventory.

(a) The disposal policies and procedures in this subpart are applicable to contractor inventory in the possession of subcontractors, except inventory under terminated subcontracts for which the termination contracting officer has authorized the prime contractor to conclude settlements (see 49.108-4).

(b) Subcontractors in all tiers shall prepare inventory schedules in accordance with the requirements of this subpart. Forms prescribed for use by prime contractors may be used by subcontractors, but their use is not required if substantially equivalent information is provided. Subcontractor inventory and any disposal recommendations (including scrap recommendations) shall be reported through the next-higher-tier subcontractor to the contractor, who is responsible for reporting property to the cognizant plant clearance officer. The prime contractor and each subcontractor are responsible for review and approval of inventory schedules submitted by their respective next-lower-tier subcontractors. This includes review and, if necessary, physical survey of subcontractor inventory that is contained in a termination settlement proposal to assure that it is physically, technically, and quantitatively allocable to the contract, and cannot be reasonably diverted to other work of the subcontractor.

(c) Any rights which the prime contractor has or acquires in the inventory of first-tier or lower-tier subcontractors shall, to the extent directed by the contracting officer, be exercised for the benefit of the Government in accordance with the provisions of the prime contract.

(d) Contract administration offices shall assure that prime contractors have performed adequate allocability reviews of subcontractor inventory and have determined that materials reasonably usable on other prime or subcontractor work are not included in a termination settlement proposal. The plant clearance officer for the prime contractor plant is responsible for determining the adequacy of screening, allocability reviews, and proper crediting of proceeds for the disposal of subcontractor inventory by the prime contractor. Assistance should generally be secured from other officers for verification, determination of allocability, local screening, and plant clearance action when property is located outside the geographic area of the cognizant contract administration office.

45.615 Accounting for contractor inventory.

Following disposition of all contractor inventory, and after due application of proceeds, the plant clearance officer shall prepare SF 1424, Inventory Disposal Report, accounting for all property reported by the contractor and its disposition. The report shall indicate any inventory lost, damaged, destroyed, or otherwise unaccounted for, as well as any changes in quantity or value of inventory made by the contractor after submission of the initial schedules. The report shall be transmitted to the property administrator or, for termination inventory, to the termination contracting officer.

52.216-7 Allowable Cost and Payment.

As prescribed in 16.307(a), insert the following clause:

ALLOWABLE COST AND PAYMENT (JUL 1991)

(a) *Invoicing.* The Government shall make payments to the Contractor when requested as work progresses, but (except for small business concerns) not more often than once every 2 weeks, in amounts determined to be allowable by the Contracting Officer in accordance with Subpart 31.2 of the Federal Acquisition Regulation (FAR) in effect on the date of this contract and the terms of this contract. The Contractor may submit to an authorized representative of the Contracting Officer, in such form and reasonable detail as the representative may require, an invoice or voucher supported by a statement of the claimed allowable cost for performing this contract.

(b) *Reimbursing costs.* (1) For the purpose of reimbursing allowable costs (except as provided in subparagraph (2) below, with respect to pension, deferred profit sharing, and employee stock ownership plan contributions), the term "costs" includes only—

(i) Those recorded costs that, at the time of the request for reimbursement, the Contractor has paid by cash, check, or other form of actual payment for items or services purchased directly for the contract;

(ii) When the Contractor is not delinquent in paying costs of contract performance in the ordinary course of business, costs incurred, but not necessarily paid, for—

(A) Materials issued from the Contractor's inventory and placed in the production process for use on the contract;

(B) Direct labor;

(C) Direct travel;

(D) Other direct in-house costs; and

(E) Properly allocable and allowable indirec costs, as shown in the records maintained by th Contractor for purposes of obtaining reimburse ment under Government contracts; and

(iii) The amount of progress payments that hav been paid to the Contractor's subcontractors unde similar cost standards.

(2) Contractor contributions to any pension or oth postretirement benefit, profit-sharing or employee stoc ownership plan funds that are paid quarterly or mo often may be included in indirect costs for payment pu poses; *Provided*, that the Contractor pays the contrib tion to the fund within 30 days after the close of t period covered. Payments made 30 days or more af the close of a period shall not be included until t Contractor actually makes the payment. Accrued co for such contributions that are paid less often than qu terly shall be excluded from indirect costs for paym purposes until the Contractor actually makes the pa ment.

(3) Notwithstanding the audit and adjustment invoices or vouchers under paragraph (g) below, allo able indirect costs under this contract shall be obtai by applying indirect cost rates established in accorda with paragraph (d) below.

(4) Any statements in specifications or other do ments incorporated in this contract by reference de nating performance of services or furnishing of ma als at the Contractor's expense or at no cost to Government shall be disregarded for purposes of c reimbursement under this clause.

(c) *Small business concerns.* A small business con may be paid more often than every 2 weeks and invoice and be paid for recorded costs for items or serv purchased directly for the contract, even though the cern has not yet paid for those items or services.

(d) *Final indirect cost rates.* (1) Final annual ind cost rates and the appropriate bases shall be establish accordance with Subpart 42.7 of the Federal Acquis Regulation (FAR) in effect for the period covered b indirect cost rate proposal.

(2) The Contractor shall, within 90 days aft expiration of each of its fiscal years, or by a late approved by the Contracting Officer, submit to the nizant Contracting Officer responsible for negotiati final indirect cost rates and, if required by agency dures, to the cognizant audit activity proposed fina rect cost rates for that period and supporting cos specifying the contract and/or subcontract to whi rates apply. T proposed rates shall be based Contractor's a nal cost experience for that perio

appropriate Government representative and Contractor shall establish the final indirect cost rates as promptly as practical after receipt of the Contractor's proposal.

(3) The Contractor and the appropriate Government representative shall execute a written understanding setting forth the final indirect cost rates. The understanding shall specify (i) the agreed-upon final annual indirect cost rates, (ii) the bases to which the rates apply, (iii) the periods for which the rates apply, (iv) any specific indirect cost items treated as direct costs in the settlement, and (v) the affected contract and/or subcontract, identifying any with advance agreements or special terms and the applicable rates. The understanding shall not change any monetary ceiling, contract obligation, or specific cost allowance or disallowance provided for in this contract. The understanding is incorporated into this contract upon execution.

(4) Failure by the parties to agree on a final annual indirect cost rate shall be a dispute within the meaning of the Disputes clause.

(e) *Billing rates.* Until final annual indirect cost rates are established for any period, the Government shall reimburse the Contractor at billing rates established by the Contracting Officer or by an authorized representative (the cognizant auditor), subject to adjustment when the final rates are established. These billing rates—

(1) Shall be the anticipated final rates; and

(2) May be prospectively or retroactively revised by mutual agreement, at either party's request, to prevent substantial overpayment or underpayment.

(f) *Quick-closeout procedures.* When the Contractor and Contracting Officer agree, the quick-closeout procedures of Subpart 42.7 of the FAR may be used.

(g) *Audit.* At any time or times before final payment, the Contracting Officer may have the Contractor's invoices or vouchers and statements of cost audited. Any payment may be (1) reduced by amounts found by the Contracting Officer not to constitute allowable costs or (2) adjusted for prior overpayments or underpayments.

(h) *Final payment.* (1) The Contractor shall submit a completion invoice or voucher, designated as such, promptly upon completion of the work, but no later than one year (or longer, as the Contracting Officer may approve in writing) from the completion date. Upon approval of that invoice or voucher, and upon the Contractor's compliance with all terms of this contract, the Government shall promptly pay any balance of allowable costs and that part of the fee (if any) not previously paid.

(2) The Contractor shall pay to the Government any refunds, rebates, credits, or other amounts (including interest, if any) accruing to or received by the Contractor or any assignee under this contract, to the extent that those amounts are properly allocable to costs for which the Contractor has been reimbursed by the Government. Reasonable expenses incurred by the Contractor for securing refunds, rebates, credits, or other amounts shall be allowable costs if approved by the Contracting Officer. Before final payment under this contract, the Contractor and each assignee whose assignment is in effect at the time of final payment shall execute and deliver—

(i) An assignment to the Government, in form and substance satisfactory to the Contracting Officer, of refunds, rebates, credits, or other amounts (including interest, if any) properly allocable to costs for which the Contractor has been reimbursed by the Government under this contract; and

(ii) A release discharging the Government, its officers, agents, and employees from all liabilities, obligations, and claims arising out of or under this contract, except—

(A) Specified claims stated in exact amounts, or in estimated amounts when the exact amounts are not known;

(B) Claims (including reasonable incidental expenses) based upon liabilities of the Contractor to third parties arising out of the performance of this contract; *provided*, that the claims are not known to the Contractor on the date of the execution of the release, and that the Contractor gives notice of the claims in writing to the Contracting Officer within 6 years following the release date or notice of final payment date, whichever is earlier; and

(C) Claims for reimbursement of costs, including reasonable incidental expenses, incurred by the Contractor under the patent clauses of this contract, excluding, however, any expenses arising from the Contractor's indemnification of the Government against patent liability.

(End of clause)

(R 7-203.4(a) 1978 SEP)
(R 7-203.4(b) 1979 MAR)
(R 7-203.4(c)(4)(iv))
(R 7-402.3(a) and (c)(5)(iii))
(R 7-605.5)
(R 7-1909.4)
(R 1-7.202-4)
(R 1-7.203-9)
(R 1-3.704-1 and -2)
(R 1-7.402-3(a) and (b)(1) and (3))
(R 1-7.403-9)

52.227-8 Reserved.

52.227-9 Refund of Royalties.

As prescribed at 27.206-2, insert the following clause: In solicitations and contracts with an incentive fee arrangement, change "price" to "target cost and target profit" wherever it appears:

REFUND OF ROYALTIES (APR 1984)

(a) The contract price includes certain amounts for royalties payable by the Contractor or subcontractors or both, which amounts have been reported to the Contracting Officer.

(b) The term "royalties" as used in this clause refers to any costs or charges in the nature of royalties, license fees, patent or license amortization costs, or the like, for the use of or for rights in patents and patent applications in connection with performing this contract or any subcontract hereunder.

(c) The Contractor shall furnish to the Contracting Officer, before final payment under this contract, a statement of royalties paid or required to be paid in connection with performing this contract and subcontracts hereunder together with the reasons.

(d) The Contractor will be compensated for royalties reported under paragraph (c) of this clause, only to the extent that such royalties were included in the contract price and are determined by the Contracting Officer to be properly chargeable to the Government and allocable to the contract. To the extent that any royalties that are included in the contract price are not in fact paid by the Contractor or are determined by the Contracting Officer not to be properly chargeable to the Government and allocable to the contract, the contract price shall be reduced. Repayment or credit to the Government shall be made as the Contracting Officer directs.

(e) If, at any time within 3 years after final payment under this contract, the Contractor for any reason is relieved in whole or in part from the payment of the royalties included in the final contract price as adjusted pursuant to paragraph (d) of this clause, the Contractor shall promptly notify the Contracting Officer of that fact and shall reimburse the Government in a corresponding amount.

(f) The substance of this clause, including this paragraph (f), shall be included in any subcontract in which theamount of royalties reported during negotiation of the subcontract exceeds $250.

(End of clause)

(V 7-104.8(b) 1968 FEB)

(The next page is 52-123.)

52.227-11 Patent Rights—Retention by the Contractor (Short Form).

As prescribed in 27.303(a), insert the following clause:

PATENT RIGHTS—RETENTION BY THE CONTRACTOR (SHORT FORM) (JUN 1989)

(a) *Definitions.*

(1) "Invention" means any invention or discovery which is or may be patentable or otherwise protectable under title 35 of the United States Code, or any novel variety of plant which is or may be protected under the Plant Variety Protection Act (7 U.S.C. 2321, et seq.)

(2) "Made" when used in relation to any invention means the conception of first actual reduction to practice of such invention.

(3) "Nonprofit organization" means a university or other institution of higher education or an organization of the type described in section 501(c)(3) of the Internal Revenue Code of 1954 (26 U.S.C. 501(c)) and exempt from taxation under section 501(a) of the Internal Revenue Code (26 U.S.C. 501(a)) or any nonprofit scientific or educational organization qualified under a state nonprofit organization statute.

(4) "Practical application" means to manufacture, in the case of a composition of product; to practice, in the case of a process or method, or to operate, in the case of a machine or system; and, in each case, under such conditions as to establish that the invention is being utilized and that is benefits are, to the extent permitted by law or Government regulations, available to the public on reasonable terms.

(5) "Small business firm" means a small business concern as defined at section 2 of Pub. L. 85-536 (15 U.S.C. 632) and implementing regulations of the Administrator of the Small Business Administration. For the purpose of this clause, the size standards for small business concerns involved in Government procurement and subcontracting at 13 CFR 121.3-8 and 13 CFR 121.3-12, respectively, will be used.

(6) "Subject invention" means any invention of the contractor conceived or first actually reduced to practice in the performance of work under this contract, provided that in the case of a variety of plant, the date of determination (as defined in section 41(d) of the Plant Variety Protection Act, 7 U.S.C. 2401(d)) must also occur during the period of contract performance.

(b) *Allocation of principal rights.* The Contractor may retain the entire right, title, and interest throughout the world to each subject invention subject to the provisions of this clause and 35 U.S.C. 203. With respect to any subject invention in which the Contractor retains title, the l Government shall have a nonexclusive, nontransf irrevocable, paid-up license to practice or have pr for or on behalf of the United States the subject in throughout the world.

(c) *Invention disclosure, election of title, and fi patent application by Contractor.* (1) The Contrac disclose each subject invention to the Federal agenc in 2 months after the inventor discloses it in wri Contractor personnel responsible for patent matter disclosure to the agency shall be in the form of a report and shall identify the contract under wh invention was made and the inventor(s). It shall b ciently complete in technical detail to convey understanding to the extent known at the time of the sure, of the nature, purpose, operation, and the p chemical, biological or electrical characteristics invention. The disclosure shall also identify any tion, on sale or public use of the invention and wh manuscript describing the invention has been subm publication and, if so, whether it has been acce publication at the time of disclosure. In addition, a closure to the agency, the Contractor will promptl the agency of the acceptance of any manuscript de the invention for publication or of any on sale or pu planned by the Contractor.

(2) The Contractor will elect in writing whether to retain title to any such invention by notify Federal agency within 2 years of disclosure to the agency. However, in any case where publication or public use has initiated the 1-year statutory wherein valid patent protection can still be obtain United States, the period for election of title may b ened by the agency to a date that is no more than prior to the end of the statutory period.

(3) The Contractor will file its initial patent tion on a subject invention to which it elects t title within 1 year after election of title or, if prior to the end of any statutory period where patent protection can be obtained in the Unite after a publication, on sale, or public us Contractor will file patent applications in ad countries or international patent offices within e months of the corresponding initial patent appli 6 months from the date permission is grante Commissioner of Patents and Trademarks to fil patent applications where such filing has been ed by a Secrecy Order.

(4) Requests for extension of the time for di election, and filing under subparagraphs (c)(1), (3) of this clause may, at the discretion of the ag granted.

(d) *Conditions when the Government may obt* The Contractor will convey to the Federal agen written request, title to any subject invention—

(1) If the Contractor fails to disclose or elect title to the subject invention within the times specified in paragraph (c) of this clause, or elects not to retain title; provided, that the agency may only request title within 60 days after learning of the failure of the Contractor to disclose or elect within the specified times.

(2) In those countries in which the Contractor fails to file patent applications within the times specified in paragraph (c) of this clause; *provided, however*, that if the Contractor has filed a patent application in a country after the times specified in paragraph (c) of this clause,but prior to its receipt of the written request of the Federal agency, the Contractor shall continue to retain title in that country.

(3) In any country in which the Contractor decides not to continue the prosecution of any application for, to pay the maintenance fees on, or defend in reexamination or opposition proceeding on, a patent on a subject invention.

(e) *Minimum rights to Contractor and protection of the Contractor right to file.* (1) The Contractor will retain a nonexclusive royalty-free license throughout the world in each subject invention to which the Government obtains title, except if the Contractor fails to disclose the invention within the times specified in paragraph (c) of this clause. The Contractor's license extends to its domestic subsidiary and affiliates, if any, within the corporate structure of which the Contractor is a party and includes the right to grant sublicenses of the same scope to the extent the Contractor was legally obligated to do so at the time the contract was awarded. The license is transferable only with the approval of the Federal agency, except when transferred to the successor of that part of the Contractor's business to which the invention pertains.

(2) The Contractor's domestic license may be revoked or modified by the funding Federal agency to the extent necessary to achieve expeditious practical application of subject invention pursuant to an application for an exclusive license submitted in accordance with applicable provisions at 37 CFR Part 404 and agency licensing regulations (if any). This license will not be revoked in that field of use or the geographical areas in which the Contractor has achieved practical application and continues to make the benefits of the invention reasonably accessible to the public. The license in any foreign country may be revoked or modified at the discretion of the funding Federal agency to the extent the Contractor, its licensees, or the domestic subsidiaries or affiliates have failed to achieve practical application in that foreign country.

(3) Before revocation or modification of the license, the funding Federal agency will furnish the Contractor a written notice of its intention to revoke or modify the license, and the Contractor will be allowed 30 days (or such other time as may be authorized by the funding Federal agency for good cause shown by the Contractor) after the notice to show cause why the license should not be revoked or modified. The Contractor has the right to appeal, in accordance with applicable regulations in 37 CFR Part 404 and agency regulations, if any, concerning the licensing of Government-owned inventions, any decision concerning the revocation or modification of the license.

(f) *Contractor action to protect the Government's interest.* (1) The Contractor agrees to execute or to have executed and promptly deliver to the Federal agency all instruments necessary to (i) establish or confirm the rights the Government has throughout the world in those subject inventions to which the Contractor elects to retain title, and (ii) convey title to the Federal agency when requested under paragraph (d) of this clause and to enable the Government to obtain patent protection throughout the world in that subject invention.

(2) The Contractor agrees to require, by written agreement, its employees, other than clerical and nontechnical employees, to disclose promptly in writing to personnel identified as responsible for the administration of patent matters and in a format suggested by the Contractor each subject invention made under contract in order that the Contractor can comply with the disclosure provisions of paragraph (c) of this clause, and to execute all papers necessary to file patent applications on subject inventions and to establish the Government's rights in the subject inventions. This disclosure format should require, as a minimum, the information required by subparagraph (c)(1) of this clause. The Contractor shall instruct such employees, through employee agreements or other suitable educational programs, on the importance of reporting inventions in sufficient time to permit the filing of patent applications prior to U.S. or foreign statutory bars.

(3) The Contractor will notify the Federal agency of any decisions not to continue the prosecution of a patent application, pay maintenance fees, or defend in a reexamination or opposition proceeding on a patent, in any country, not less than 30 days before the expiration of the response period required by the relevant patent office.

(4) The Contractor agrees to include, within the specification of any United States patent application and any patent issuing thereon covering a subject invention, the following statement, "This invention was made with Government support under (identify the contract) awarded by (identify the Federal agency). The Government has certain rights in the invention."

(g) *Subcontracts.* (1) The Contractor will include this clause, suitably modified to identify the parties, in al sub-

contracts, regardless of tier, for experimental, developmental, or research work to be performed by a small business firm or domestic nonprofit organization. The subcontractor will retain all rights provided for the Contractor in this clause, and the Contractor will not, as part of the consideration for awarding the subcontract, obtain rights in the subcontractor's subject inventions.

(2) The Contractor will include in all other subcontracts, regardless of tier, for experimental, developmental, or research work the patent rights clause required by Subpart 27.3.

(3) In the case of subcontracts, at any tier, the agency, subcontractor, and the Contractor agree that the mutual obligations of the parties created by this clause constitute a contract between the subcontractor and the Federal agency with respect to the matters covered by the clause; *provided, however*, that nothing in this paragraph is intended to confer any jurisdiction under the Contract Disputes Act in connection with proceedings under paragraph (j) of this clause.

(h) *Reporting on utilization of subject inventions.* The Contractor agrees to submit, on request, periodic reports no more frequently than annually on the utilization of a subject invention or on efforts at obtaining such utilization that are being made by the Contractor or its licensees or assignees. Such reports shall include information regarding the status of development, date of first commercial sale or use, gross royalties received by the Contractor, and such other data and information as the agency may reasonably specify. The Contractor also agrees to provide additional reports as may be requested by the agency in connection with any march-in proceeding undertaken by the agency in accordance with paragraph (j) of this clause. As required by 35 U.S.C. 202(c)(5), the agency agrees it will not disclose such information to persons outside the Government without permission of the Contractor.

(i) *Preference for United States industry.* Notwithstanding any other provision of this clause, the Contractor agrees that neither it nor any assignee will grant to any person the exclusive right to use or sell any subject invention in the United States unless such person agrees that any product embodying the subject invention or produced through the use of the subject invention will be manufactured substantially in the United States. However, in individual cases, the requirement for such an agreement may be waived by the Federal agency upon a showing by the Contractor or its assignee that reasonable but unsuccessful efforts have been made to grant licenses on similar terms to potential licensees that would be likely to manufacture substantially in the United States or that under the circumstances domestic manufacture is not commercially feasible.

(j) *March-in rights.* The Contractor agrees that, with respect to any subject invention in which it has acquired title, the Federal agency has the right in accordance with the procedures in 37 CFR 401.6 and any supplemental regulations of the agency to require the Contractor, assignee or exclusive licensee of a subject invention to grant a nonexclusive, partially exclusive, or exclusive license in any field of use to a responsible applicant or applicants, upon terms that are reasonable under the circumstances, and if the Contractor, assignee, or exclusive licensee refuses such a request the Federal agency has the right to grant such a license itself if the Federal agency determines that—

(1) Such action is necessary because the Contractor or assignee has not taken, or is not expected to take within a reasonable time, effective steps to achieve practical application of the subject invention in such field of use;

(2) Such action is necessary to alleviate health or safety needs which are not reasonably satisfied by the Contractor, assignee, or their licensees;

(3) Such action is necessary to meet requirements for public use specified by Federal regulations and such requirements are not reasonably satisfied by the Contractor, assignee, or licensees; or

(4) Such action is necessary because the agreement required by paragraph (i) of this clause has not been obtained or waived or because a licensee of the exclusive right to use or sell any subject invention in the United States is in breach of such agreement.

(k) *Special provisions for contracts with nonprofit organizations.* If the Contractor is a nonprofit organization, it agrees that—

(1) Rights to a subject invention in the United States may not be assigned without the approval of the Federal agency, except where such assignment is made to an organization which has as one of its primary functions the management of inventions; *provided*, that such assignee will be subject to the same provisions as the Contractor;

(2) The Contractor will share royalties collected on a subject invention with the inventor, including Federal employee co-inventors (when the agency deems it appropriate) when the subject invention is assigned in accordance with 35 U.S.C. 202(e) and 37 CFR 401.1

(3) The balance of any royalties or income earned by the Contractor with respect to subject inventions, after payment of expenses (including payments to inventors) incidental to the administration of subject inventions will be utilized for the support of scientific research or education; and

(4) It will make efforts that are reasonable under the circumstances to attract licensees of subject inventions that are small business firms, and that it will give a preference to a small business firm when licensing a subject invention if the Contractor determines that the small business firm has a plan or proposal for marketing the invention which, if executed, is equally as likely to bring the invention to practical application as any

or proposals from applicants that are not small business firms; *provided*, that the Contractor is also satisfied that the small business firm has the capability and resources to carry out its plan or proposal. The decision whether to give a preference in any specific case will be at the discretion of the contractor. However, the Contractor agrees that the Secretary of Commerce may review the Contractor's licensing program and decisions regarding small business applicants, and the Contractor will negotiate changes to its licensing policies, procedures, or practices with the Secretary of Commerce when the Secretary's review discloses that the Contractor could take reasonable steps to more effectively implement the requirements of this subparagraph (k)(4).

(l) *Communications.*

(Complete according to agency instructions.)

(End of clause)

Alternate I (JUN 1989). As prescribed in 27.303(a)(3), add the following sentence at the end of paragraph (b) of the basic clause:

The license shall include the right of the Government to sublicense foreign governments, their nationals and international organizations pursuant to the following treaties or international agreements: .....*

[*Contracting Officer complete with the names of applicable existing treaties or international agreements. The above language is not intended to apply to treaties or agreements that are in effect on the date of the award but are not listed.]

Alternate II (JUN 1989). As prescribed in 27.303(a)(3), add the following sentence at the end of paragraph (b) of the basic clause:

The agency reserves the right to unilaterally amend this contract to identify specific treaties or international agreements entered into or to be entered into by the Government after the effective date of the contract and effectuate those license or other rights which are necessary for the Government to meet its obligations to foreign governments, their nationals and international organizations under such treaties or international agreements with respect to subject inventions made after the date of the amendment.

Alternate III (JUN 1989). As prescribed in 27.303(a)(4), substitute the following in place of subparagraph (k)(3) of the basic clause:

(3) After payment of patenting costs, licensing costs, payments to inventors, and other expenses incidental to the administration of subject inventions, the balance of any royalties or income earned and retained by the Contractor during any fiscal year on subject inventions under this or any successor contract containing the same requirement, up to any amount equal to 5 percent of the budget of the facility for that fiscal year, shall be used by the Contractor for the scientific research, development, and education consistent with the research and development mission and objectives of the facility, including activities that increase the licensing potential of other inventions of the facility. If the balance exceeds 5 percent, 75 percent of the excess above 5 percent shall be paid by the Contractor to the Treasury of the United States and the remaining 25 percent shall be used by the Contractor only for the same purposes as described above. To the extent it provides the most effective technology transfer, the licensing of subject inventions shall be administered by Contractor employees on location at the facility.

Alternate IV (JUN 1989). As prescribed in 27.303(a)(5), include the following subparagraph in paragraph (f) of the basic clause:

(5) The Contractor shall establish and maintain active and effective procedures to ensure that subject inventions are promptly identified and timely disclosed, and shall submit a description of the procedures to the Contracting Officer so that the Contracting Officer may evaluate and determine their effectiveness.

52.227-12 Patent Rights—Retention by the Contractor (Long Form).

As prescribed at 27.303(b), insert the following clause:

PATENT RIGHTS—RETENTION BY THE CONTRACTOR (LONG FORM) (JUN 1989)

(a) *Definitions.* "Invention" means any invention or discovery which is or may be patentable or otherwise protectable under title 35 of the United States Code or any novel variety of plant that is or may be protectable under the Plant Variety Protection Act (7 U.S.C. 2321, et seq.).

"Made" when used in relation to any invention means the conception or first actual reduction to practice of such invention.

"Nonprofit organization" means a domestic university or other institution of higher education or an organization of the type described in section 501(c)(3) of the Internal Revenue Code of 1954 (26 U.S.C. 501(c)) and exempt from taxation under section 501(a) of the Internal Revenue Code (26 U.S.C. 501(a)) or any nonprofit scientific or educational organization qualified under a state nonprofit organization statute.

"Practical application" means to manufacture in the case of a composition or product, to practice in the case of a process or method, or to operate in the case of a machine or system; and, in each case, under such conditions as to establish that the invention is being utilized and that its benefits are, to the extent permitted by law or Government regulations, available to the public on reasonable terms.

"Small business firm" means a small business concern as defined at section 2 of Pub. L. 85-536 (15 U.S.C. 632) and implementing regulations of the Administrator of the Small Business Administration. For the purpose of this clause, the size standards for small business concerns involved in Government procurement and subcontracting at 13 CFR 121.3-8 and 13 CFR 121.3-12, respectively, will be used.

"Subject invention" means any invention of the Contractor conceived or first actually reduced to practice in the performance of work under this contract; *provided*, that in the case of a variety of plant, the date of determination (as defined in section 41(d) of the Plant Variety Protection Act, 7 U.S.C. 2401(d)) must also occur during the period of contract performance.

(b) *Allocation of principal rights.* The Contractor may elect to retain the entire right, title, and interest throughout the world to each subject invention subject to the provisions of this clause and 35 U.S.C. 203. With respect to any subject invention in which the Contractor elects to retain title, the Federal Government shall have a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States the subject invention throughout the world.

(c) *Invention disclosure, election of title, and filing of patent applications by Contractor.* (1) The Contractor shall disclose each subject invention to the Contracting Officer within 2 months after the inventor discloses it in writing to Contractor personnel responsible for patent matters or within 6 months after the Contractor becomes aware that a subject invention has been made, whichever is earlier. The disclosure to the Contracting Officer shall be in the form of a written report and shall identify the contract under which the invention was made and the inventor(s). It shall be sufficiently complete in technical detail to convey a clear understanding, to the extent known at the time of the disclosure, of the nature, purpose, operation, and physical, chemical, biological, or electrical characteristics of the invention. The disclosure shall also identify any publication, on sale, or public use of the invention and whether a manuscript describing the invention has been submitted for publication and, if so, whether it has been accepted for publication at the time of disclosure. In addition, after disclosure to the Contracting Officer, the Contractor shall promptly notify the Contracting Officer of the acceptance of any manuscript describing the invention for publication or of any on sale or public use planned by the Contractor.

(2) The Contractor shall elect in writing whether or not to retain title to any such invention by notifying the Federal agency at the time of disclosure or within 8 months of disclosure, as to those countries (including the United States) in which the Contractor will retain title; *provided*, that in any case where publication, on sale, or public use has initiated the 1-year statutory period wherein valid patent protection can still be obtained in the United States, the period of election of title may be shortened by the agency to a date that is no more than 60 days prior to the end of the statutory period.

(3) The Contractor shall file its initial patent application on an elected invention within 1 year after election or, if earlier, prior to the end of any statutory period wherein valid patent protection can be obtained in the United States after a publication, on sale, or publ
The Contractor shall file patent applications in ad
al countries (including the European Patent Offi
under the Patent Cooperation Treaty) within eit
months of the corresponding initial patent applica
6 months from the date permission is granted
Commissioner of Patents and Trademarks to file
patent applications where such filing has been pr
ed by a Secrecy Order.

(4) Requests for extension of the time for dis
to the Contracting Officer, election, and filing
the discretion of the funding Federal agency, be g
and will normally be granted unless the Cont
Officer has reason to believe that a particular ex
would prejudice the Government's interest.

(d) *Conditions when the Government may obtai*
The Contractor shall convey to the Federal agency
written request, title to any subject invention—

(1) If the Contractor elects not to retain title to
ject invention;

(2) If the Contractor fails to disclose or elect t
ject invention within the times specified in paragr
above (the agency may only request title within
after learning of the Contractor's failure to re
elect within the specified times);

(3) In those countries in which the Contractor
file patent applications within the time specified
graph (c) above; *provided*, however, that
Contractor has filed a patent application in a
after the times specified in paragraph (c) abo
prior to its receipt of the written request of the
agency, the Contractor shall continue to retain
that country; or

(4) In any country in which the Contractor
not to continue the prosecution of any applicatio
pay the maintenance fees on, or defend in reexan
or opposition proceeding on, a patent on a
invention.

(e) *Minimum rights to Contractor.* (1) The Co
shall retain a nonexclusive, royalty-free license thr
the world in each subject invention to whi
Government obtains title except if the Contractor
disclose the subject invention within the times spec
paragraph (c) above. The Contractor's license exten
domestic subsidiaries and affiliates, if any, within
porate structure of which the Contractor is a p
includes the right to grant sublicenses of the same
the extent the Contractor was legally obligated to
the time the contract was awarded. The license is
able only with the approval of the funding Federal
except when transferred to the successor of that pa
Contractor's business to which the invention pertai

(2) The Contractor's domestic license
revoked or modified by the funding Federal a
the extent necessary to achieve expeditious

application of the subject invention pursuant to an application for an exclusive license submitted in accordance with applicable provisions in the Federal Property Management Regulations and agency licensing regulations (if any). This license shall not be revoked in that field of use or the geographical areas in which the Contractor has achieved practical application and continues to make the benefits of the invention reasonably accessible to the public. The license in any foreign country may be revoked or modified at the discretion of the funding Federal agency to the extent the Contractor, its licensees, or its domestic subsidiaries or affiliates have failed to achieve practical application in that foreign country.

(3) Before revocation or modification of the license, the funding Federal agency shall furnish the Contractor a written notice of its intention to revoke or modify the license, and the Contractor shall be allowed 30 days (or such other time as may be authorized by the funding Federal agency for good cause shown by the Contractor) after the notice to show cause why the license should not be revoked or modified. The Contractor has the right to appeal, in accordance with applicable agency licensing regulations and 37 CFR 404 concerning the licensing of Government-owned inventions, any decision concerning the revocation or modification of its license.

(f) *Contractor action to protect the Government's interest.* (1) The Contractor agrees to execute or to have executed and promptly deliver to the Federal agency all instruments necessary to (i) establish or confirm the rights the Government has throughout the world in those subject inventions to which the Contractor elects to retain title, and (ii) convey title to the Federal agency when requested under paragraph (d) above and subparagraph (n)(2) below, and to enable the Government to obtain patent protection throughout the world in that subject invention.

(2) The Contractor agrees to require, by written agreement, its employees, other than clerical and nontechnical employees, to disclose promptly in writing to personnel identified as responsible for the administration of patent matters and in a format suggested by the Contractor each subject invention made under contract in order that the Contractor can comply with the disclosure provisions of paragraph (c) above, and to execute all papers necessary to file patent applications on subject inventions and to establish the Government's rights in the subject inventions. This disclosure format should require, as a minimum, the information required by subparagraph (c)(1) above. The Contractor shall instruct such employees through employee agreements or other suitable educational programs on the importance of reporting inventions in sufficient time to permit the filing of patent applications prior to U.S. or foreign statutory bars.

(3) The Contractor shall notify the Federal agency of any decision not to continue the prosecution of a patent application, pay maintenance fees, or defend in a reexamination or opposition proceeding on a patent, in any country, not less than 30 days before the expiration of the response period required by the relevant patent office.

(4) The Contractor agrees to include, within the specification of any United States patent application and any patent issuing thereon covering a subject invention, the following statement: "This invention was made with Government support under (identify the contract) awarded by (identify the Federal agency). The Government has certain rights in this invention."

(5) The Contractor shall establish and maintain active and effective procedures to assure that subject inventions are promptly identified and disclosed to Contractor personnel responsible for patent matters within 6 months of conception and/or first actual reduction to practice, whichever occurs first in performance of work under this contract. These procedures shall include the maintenance of laboratory notebooks or equivalent records and other records as are reasonably necessary to document the conception and/or the first actual reduction to practice of subject inventions, and records that show that the procedures for identifying and disclosing the inventions are followed. Upon request, the Contractor shall furnish the Contracting Officer a description of such procedures for evaluation and for determination as to their effectiveness.

(6) The Contractor agrees, when licensing a subject invention, to arrange to avoid royalty charges on acquisitions involving Government funds, including funds derived through Military Assistance Program of the Government or otherwise derived through the Government, to refund any amounts received as royalty charges on the subject invention in acquisitions for, or on behalf of, the Government, and to provide for such refund in any instrument transferring rights in the invention to any party.

(7) The Contractor shall furnish the Contracting Officer the following:

(i) Interim reports every 12 months (or such longer period as may be specified by the Contracting Officer) from the date of the contract, listing subject inventions during that period and certifying that all subject inventions have been disclosed or that there are no such inventions.

(ii) A final report, within 3 months after completion of the contracted work, listing all subject inventions or certifying that there were no such inventions, and listing all subcontracts at any tier containing a patent rights clause or certifying that there were no such subcontracts.

(8) The Contractor shall promptly notify the

Contracting Officer in writing upon the award of any subcontract at any tier containing a patent rights clause by identifying the subcontractor, the applicable patent rights clause, the work to be performed under the subcontract, and the dates of award and estimated completion. Upon request of the Contracting Officer, the Contractor shall furnish a copy of such subcontract, and no more frequently than annually, a listing of the subcontracts that have been awarded.

(9) In the event of a refusal by a prospective subcontractor to accept one of the clauses in subparagraph (g)(1) or (2) below, the Contractor (i) shall promptly submit a written notice to the Contracting Officer setting forth the subcontractor's reasons for such refusal and other pertinent information that may expedite disposition of the matter and (ii) shall not proceed with such subcontracting without the written authorization of the Contracting Officer.

(10) The Contractor shall provide, upon request, the filing date, serial number and title, a copy of the patent application (including an English-language version if filed in a language other than English), and patent number and issue date for any subject invention for which the Contractor has retained title.

(11) Upon request, the Contractor shall furnish the Government an irrevocable power to inspect and make copies of the patent application file.

(g) *Subcontracts.* (1) The Contractor shall include the clause at 52.227-11 of the Federal Acquisition Regulation (FAR), suitably modified to identify the parties, in all subcontracts, regardless of tier, for experimental, developmental, or research work to be performed by a small business firm or nonprofit organization. The subcontractor shall retain all rights provided for the Contractor in this clause, and the Contractor shall not, as part of the consideration for awarding the subcontract, obtain rights in the subcontractor's subject inventions.

(2) The Contractor shall include this clause (FAR 52.227-12) in all other subcontracts, regardless of tier, for experimental, developmental, or research work.

(3) In the case of subcontracts, at any tier, when the prime award with the Federal agency was a contract (but not a grant or cooperative agreement), the agency, subcontractor, and the Contractor agree that the mutual obligations of the parties created by this clause constitute a contract between the subcontractor and the Federal agency with respect to those matters covered by this clause.

(h) *Reporting utilization of subject inventions.* The Contractor agrees to submit on request periodic reports no more frequently than annually on the utilization of a subject invention or on efforts at obtaining such utilization that are being made by the Contractor or its licensees or assignees. Such reports shall include information regarding the status of development, date of first commercial sale or use, gross royalties received by the Contractor, and s other data and information as the agency may reasona specify. The Contractor also agrees to provide additio reports as may be requested by the agency in connec with any march-in proceedings undertaken by the age in accordance with paragraph (j) of this clause. To e extent data or information supplied under this paragrap s considered by the Contractor, its licensee or assignee t privileged and confidential and is so marked, the age agrees that, to the extent permitted by law, it shall not close such information to persons outside the Governme

(i) *Preference for United States indust* Notwithstanding any other provision of this clause, Contractor agrees that neither it nor any assignee will g to any person the exclusive right to use or sell any sub invention in the United States unless such person agrees any products embodying the subject invention will be ma factured substantially in the United States. Howe in individual cases, the requirement for such an agreen may be waived by the Federal agency upon a showing the Contractor or its assignee that reasonable but unsucc ful efforts have been made to grant licenses on similar te to potential licensees that would be likely to manufac substantially in the United States or that under the circ stances domestic manufacture is not commercially feasib

(j) *March-in rights.* The Contractor agrees that respect to any subject invention in which it has acquired t the Federal agency has the right in accordance with the cedures in FAR 27.304-1(g) to require the Contractor assignee, or exclusive licensee of a subject invention to g a nonexclusive, partially exclusive, or exclusive licens any field of use to a responsible applicant or applicants, u terms that are reasonable under the circumstances, and if Contractor, assignee, or exclusive licensee refuses suc request, the Federal agency has the right to grant suc license itself if the Federal agency determines that—

(1) Such action is necessary because the Contra or assignee has not taken, or is not expected to t within a reasonable time, effective steps to achieve p tical application of the subject invention in such fiel use;

(2) Such action is necessary to alleviate healt safety needs which are not reasonably satisfied by Contractor, assignee, or their licensees;

(3) Such action is necessary to meet requirements public use specified by Federal regulations and s requirements are not reasonably satisfied by Contractor, assignee, or licensees; or

(4) Such action is necessary because the agreen required by paragraph (i) of this clause has not b obtained or waived or because a licensee of the ex sive right to use or sell any subject invention in United States is in breach of such agreement.

(k) *Special provisions for contracts with nonpr organizations.* Reserved.

52-1

(l) *Communications.*

(Complete according to agency instructions.)

(m) *Other inventions.* Nothing contained in this clause shall be deemed to grant to the Government any rights with respect to any invention other than a subject invention.

(n) *Examination of records relating to inventions.* (1) The Contracting Officer or any authorized representative shall, until 3 years after final payment under this contract, have the right to examine any books (including laboratory notebooks), records, and documents of the Contractor relating to the conception or first reduction to practice of inventions in the same field of technology as the work under this contract to determine whether—

(i) Any such inventions are subject inventions;

(ii) The Contractor has established and maintains the procedures required by subparagraphs (f)(2) and (f)(3) of this clause; and

(iii) The Contractor and its inventors have complied with the procedures.

(2) If the Contracting Officer determines that an inventor has not disclosed a subject invention to the Contractor in accordance with the procedures required by subparagraph (f)(5) of this clause, the Contracting Officer may, within 60 days after the determination, request title in accordance with subparagraphs (d)(2) and (d)(3) of this clause. However, if the Contractor establishes that the failure to disclose did not result from the Contractor's fault or negligence, the Contracting Officer shall not request title.

(3) If the Contracting Officer learns of an unreported Contractor invention which the Contracting Officer believes may be a subject invention, the Contractor may be required to disclose the invention to the agency for a determination of ownership rights.

(4) Any examination of records under this paragraph shall be subject to appropriate conditions to protect the confidentiality of the information involved.

(o) *Withholding of payment (this paragraph does not apply to subcontracts).* (1) Any time before final payment under this contract, the Contracting Officer may, in the Government's interest, withhold payment until a reserve not exceeding $50,000 or 5 percent of the amount of the contract, whichever is less, shall have been set aside if, in the Contracting Officer's opinion, the Contractor fails to—

(i) Establish, maintain, and follow effective procedures for identifying and disclosing subject inventions pursuant to subparagraph (f)(5) above;

(ii) Disclose any subject invention pursuant to subparagraph (c)(1) above;

(iii) Deliver acceptable interim reports pursuant to subdivision (f)(7)(i) above; or

(iv) Provide the information regarding subcontracts pursuant to subparagraph (f)(8) of this clause.

(2) Such reserve or balance shall be withheld until the Contracting Officer has determined that the Contractor has rectified whatever deficiencies exist and has delivered all reports, disclosures, and other information required by this clause.

(3) Final payment under this contract shall not be made before the Contractor delivers to the Contracting Officer all disclosures of subject inventions required by subparagraph (c)(1) above, an acceptable final report pursuant to subdivision (f)(7)(ii) above, and all past due confirmatory instruments.

(4) The Contracting Officer may decrease or increase the sums withheld up to the maximum authorized above. No amount shall be withheld under this paragraph while the amount specified by this paragraph is being withheld under other provisions of the contract. The withholding of any amount or the subsequent payment thereof shall not be construed as a waiver of any Government right.

(End of clause)

Alternate I (JUN 1989). As prescribed in 27.303(b)(2), add the following sentence at the end of paragraph (b) of the basic clause:

The license shall include the right of the Government to sublicense foreign governments, their nationals, and international organizations pursuant to the following treaties or international agreements: .....*

[*Contracting Officer complete with the names of applicable existing treaties or international agreements. The above language is not intended to apply to treaties or agreements that are in effect on the date of the award but are not listed.]

Alternate II (JUN 1989). As prescribed in 27.303(b)(2), add the following sentence at the end of paragraph (b) of the basic clause:

The agency reserves the right to unilaterally amend this contract to identify specific treaties or international agreements entered into or to be entered into by the Government after the effective date of this contract and effectuate those license or other rights which are necessary for the Government to meet its obligations to foreign governments, their nationals, and international organizations under such treaties or international agreement with respect to subject inventions made after the date of the amendment.

52.232-7 Payments under Time-and-Material
Labor-Hour Contracts.

As prescribed in 32.111(b), insert the following cl

PAYMENTS UNDER TIME-AND-MATERIALS A
LABOR-HOUR CONTRACTS (APR 1984)

The Government shall pay the Contractor as f
upon the submission of invoices or vouchers appro
the Contracting Officer:

(a) *Hourly rate.* (1) The amounts shall be compu
multiplying the appropriate hourly rates prescribed
Schedule by the number of direct labor hours perf
The rates shall include wages, indirect costs, gener
administrative expense, and profit. Fractional parts
hour shall be payable on a prorated basis. Vouchers
submitted once each month (or at more frequent int
if approved by the Contracting Officer), to the Cont
Officer or designee. The Contractor shall subst
vouchers by evidence of actual payment and by ind
daily job timecards, or other substantiation approved
Contracting Officer. Promptly after receipt of each s
tiated voucher, the Government shall, except as oth
provided in this contract, and subject to the terms
below, pay the voucher as approved by the Cont
Officer.

(2) Unless otherwise prescribed in the Sched
Contracting Officer shall withhold 5 percent
amounts due under this paragraph (a), but th
amount withheld shall not exceed $50,000. The a
withheld shall be retained until the execution and
ery of a release by the Contractor as provided i
graph (f) below.

(3) Unless the Schedule prescribes otherwi
hourly rates in the Schedule shall not be varied b
of the Contractor having performed work on a
time basis. If no overtime rates are provided
Schedule and overtime work is approved in adv
the Contracting Officer, overtime rates shall be n
ed. Failure to agree upon these overtime rates s
treated as a dispute under the Disputes clause
contract. If the Schedule provides rates for overti
premium portion of those rates will be reimb
only to the extent the overtime is approved
Contracting Officer.

(b) *Materials and subcontracts.* (1) Allowable
direct materials shall be determined by the Cont
Officer in accordance with Subpart 31.2 of the
Acquisition Regulation (FAR) in effect on the date
contract. Reasonable and allocable material handli

may be included in the charge for material to the extent they are clearly excluded from the hourly rate. Material handling costs are comprised of indirect costs, including, when appropriate, general and administrative expense allocated to direct materials in accordance with the Contractor's usual accounting practices consistent with Subpart 31.2 of the FAR. The Contractor shall be reimbursed for items and services purchased directly for the contract only when cash, checks, or other forms of actual payment have been made for such purchased items or services. Direct materials, as used in this clause, are those materials which enter directly into the end product, or which are used or consumed directly in connection with the furnishing of the end product.

(2) The cost of subcontracts that are authorized under the subcontracts clause of this contract shall be reimbursable costs under this clause; *provided*, that the costs are consistent with subparagraph (3) below. Reimbursable costs in connection with subcontracts shall be limited to the amounts paid to the subcontractor in the same manner as for items and services purchased directly for the contract under subparagraph (1) above; however, this requirement shall not apply to a Contractor that is a small business concern. Reimbursable costs shall not include any costs arising from the letting, administration or supervision of performance of the subcontract, if the costs are included in the hourly rates payable under (a)(1) above.

(3) To the extent able, the Contractor shall—

(i) Obtain materials at the most advantageous prices available with due regard to securing prompt delivery of satisfactory materials; and

(ii) Take all cash and trade discounts, rebates, allowances, credits, salvage, commissions, and other benefits. When unable to take advantage of the benefits, the Contractor shall promptly notify the Contracting Officer and give the reasons. Credit shall be given to the Government for cash and trade discounts, rebates, allowances, credits, salvage, the value of any appreciable scrap, commissions, and other amounts that have accrued to the benefit of the Contractor, or would have accrued except for the fault or neglect of the Contractor. The benefits lost without fault or neglect on the part of the Contractor, or lost through fault of the Government, shall not be deducted from gross costs.

(c) *Total cost.* It is estimated that the total cost to the Government for the performance of this contract shall not exceed the ceiling price set forth in the Schedule and the Contractor agrees to use its best efforts to perform the work specified in the Schedule and all obligations under this contract within such ceiling price. If at any time the Contractor has reason to believe that the hourly rate payments and material costs that will accrue in performing this contract in the next succeeding 30 days, if added to all other payments and costs previously accrued, will exceed 85 percent of the ceiling price in the Schedule, the Contractor shall notify the Contracting Officer giving a revised estimate of the total price to the Government for performing this contract with supporting reasons and documentation. If at any time during performing this contract, the Contractor has reason to believe that the total price to the Government for performing this contract will be substantially greater or less than the then stated ceiling price, the Contractor shall so notify the Contracting Officer, giving a revised estimate of the total price for performing this contract, with supporting reasons and documentation. If at any time during performing this contract, the Government has reason to believe that the work to be required in performing this contract will be substantially greater or less than the stated ceiling price, the Contracting Officer will so advise the Contractor, giving the then revised estimate of the total amount of effort to be required under the contract.

(d) *Ceiling price.* The Government shall not be obligated to pay the Contractor any amount in excess of the ceiling price in the Schedule, and the Contractor shall not be obligated to continue performance if to do so would exceed the ceiling price set forth in the Schedule, unless and until the Contracting Officer shall have notified the Contractor in writing that the ceiling price has been increased and shall have specified in the notice a revised ceiling that shall constitute the ceiling price for performance under this contract. When and to the extent that the ceiling price set forth in the Schedule has been increased, any hours expended and material costs incurred by the Contractor in excess of the ceiling price before the increase shall be allowable to the same extent as if the hours expended and material costs had been incurred after the increase in the ceiling price.

(e) *Audit.* At any time before final payment under this contract the Contracting Officer may request audit of the invoices or vouchers and substantiating material. Each payment previously made shall be subject to reduction to the extent of amounts, on preceding invoices or vouchers, that are found by the Contracting Officer not to have been properly payable and shall also be subject to reduction for overpayments or to increase for underpayments. Upon receipt and approval of the voucher or invoice designated by the Contractor as the "completion voucher" or "completion invoice" and substantiating material, and upon compliance by the Contractor with all terms of this contract (including, without limitation, terms relating to patents and the terms of (f) and (g) below), the Government shall promptly pay any balance due the Contractor. The completion invoice or voucher, and substantiating material, shall be submitted by the Contractor as promptly as practicable following completion of the work under this contract, but in no event later than 1 year (or such longer period as the Contracting Officer may approve in writing) from the date of completion.

(f) *Assignment.* The Contractor, and each assignee under an assignment entered into under this contract and in

effect at the time of final payment under this contract, shall execute and deliver, at the time of and as a condition precedent to final payment under this contract, a release discharging the Government, its officers, agents, and employees of and from all liabilities, obligations, and claims arising out of or under this contract, subject only to the following exceptions:

(1) Specified claims in stated amounts, or in estimated amounts if the amounts are not susceptible of exact statement by the Contractor.

(2) Claims, together with reasonable incidental expenses, based upon the liabilities of the Contractor to third parties arising out of performing this contract, that are not known to the Contractor on the date of the execution of the release, and of which the Contractor gives notice in writing to the Contracting Officer not more than 6 years after the date of the release or the date of any notice to the Contractor that the Government is prepared to make final payment, whichever is earlier.

(3) Claims for reimbursement of costs (other than expenses of the Contractor by reason of its indemnification of the Government against patent liability), including reasonable incidental expenses, incurred by the Contractor under the terms of this contract relating to patents.

(g) *Refunds*. The Contractor agrees that any refunds, rebates, or credits (including any related interest) accruing to or received by the Contractor or any assignee, that arise under the materials portion of this contract and for which the Contractor has received reimbursement, shall be paid by the Contractor to the Government. The Contractor and each assignee, under an assignment entered into under this contract and in effect at the time of final payment under this contract, shall execute and deliver, at the time of and as a condition precedent to final payment under this contract, an assignment to the Government of such refunds, rebates, or credits (including any interest) in form and substance satisfactory to the Contracting Officer.

(End of clause)

(R 7-901.6 1972 MAY)

Alternate I (APR 1984). If the nature of the work to be performed requires the contractor to furnish material that is regularly sold to the general public in the normal course of business by the contractor, and the price is under the limitations prescribed in 16.601(b)(3), add the following subparagraph (4) to paragraph (b) of the basic clause:

(b)(4) If the nature of the work to be performed requires the Contractor to furnish material which is regularly sold to the general public in the normal course of business by the Contractor, the price to be paid for such material, notwithstanding (b)(1) above, shall be on the basis of an established catalog or list price, in effect when the material is furnished, less all applicable discounts to the Government; *provided*, that in no event shall such price be in excess of the Contractor's sales price to its most favored customer for the same item in like quantity, or the current price, whichever is lower.

(AV 7-901.6 1972 MAY)

Alternate II (JAN 1986). If a labor-hour contract is contemplated, and if no specific reimbursement for materials furnished is intended, the Contracting Officer may add the following paragraph (h) to the basic clause:

(h) The terms of this clause that govern reimbursement for materials furnished are considered to have been d

52.248-1 Value Engineering.

As prescribed in 48.201, insert the following clause in supply or service contracts to provide a value engineering incentive under the conditions specified in 48.201. In solicitations and contracts for items requiring an extended period for production (e.g., ship construction, major system acquisition), if agency procedures prescribe sharing of future contract savings on all units to be delivered under contracts awarded during the sharing period, the contracting officer shall modify subdivision (i)(3)(i) and the first sentence under subparagraph (3) of the definition of acquisition savings by substituting "under contracts awarded during the sharing period" for "during the sharing period." For engineering-development and low-rate-initial-production solicitations and contracts, the contracting officer shall modify subdivision (i)(3)(i) and the first sentence under subparagraph (3) of the definition of acquisition savings by substituting for "the number of future contract units scheduled for delivery during the sharing period," "a number equal to the quantity required over the highest 36 consecutive months of planned production, based on planning or production documentation at the time the VECP is accepted."

VALUE ENGINEERING (MAR 1989)

(a) *General.* The Contractor is encouraged to develop, prepare, and submit value engineering change proposals (VECP's) voluntarily. The Contractor shall share in any net acquisition savings realized from accepted VECP's, in accordance with the incentive sharing rates in paragraph (f) below.

(b) *Definitions.* "Acquisition savings," as used in this clause, means savings resulting from the application of a VECP to contracts awarded by the same contracting office or its successor for essentially the same unit. Acquisition savings include—

(1) Instant contract savings, which are the net cost reductions on this, the instant contract, and which are equal to the instant unit cost reduction multiplied by the number of instant contract units affected by the VECP, less the Contractor's allowable development and implementation costs;

(2) Concurrent contract savings, which are net reductions in the prices of other contracts that are definitized and ongoing at the time the VECP is accepted; and

(3) Future contract savings, which are the product of the future unit cost reduction multiplied by the number of future contract units scheduled for delivery during the sharing period. If this contract is a multiyear contract, future contract savings include savings on quantities funded after VECP acceptance.

"Collateral costs," as used in this clause, means agency cost of operation, maintenance, logistic support, or Government-furnished property.

"Collateral savings," as used in this clause, means those measurable net reductions resulting from a VECP in the agency's overall projected collateral costs, exclusive of acquisition savings, whether or not the acquisition cost changes.

"Contracting office" includes any contracting office that the acquisition is transferred to, such as another branch of the agency or another agency's office that is performing a joint acquisition action.

"Contractor's development and implementation costs," as used in this clause, means those costs the Contractor incurs on a VECP specifically in developing, testing, preparing, and submitting the VECP, as well as those costs the Contractor incurs to make the contractual changes required by Government acceptance of a VECP.

"Future unit cost reduction," as used in this clause, means the instant unit cost reduction adjusted as the Contracting Officer considers necessary for projected learning or changes in quantity during the sharing period. It is calculated at the time the VECP is accepted and applies either (1) throughout the sharing period, unless the Contracting Officer decides that recalculation is necessary because conditions are significantly different from those previously anticipated or (2) to the calculation of a lump-sum payment, which cannot later be revised.

"Government costs," as used in this clause, means thos agency costs that result directly from developing an implementing the VECP, such as any net increases in th cost of testing, operations, maintenance, and logistics sup port. The term does not include the normal administrativ costs of processing the VECP or any increase in this cor tract's cost or price resulting from negative instant contrac savings.

"Instant contract," as used in this clause, means thi contract, under which the VECP is submitted. It does nc include increases in quantities after acceptance of th VECP that are due to contract modifications, exercise c options, or additional orders. If this is a multiyear contrac the term does not include quantities funded after VEC acceptance. If this contract is a fixed-price contract wit prospective price redetermination, the term refers to th period for which firm prices have been established.

"Instant unit cost reduction" means the amount of th decrease in unit cost of performance (without deductin any Contractor's development or implementation cost resulting from using the VECP on this, the instant contrac If this is a service contract, the instant unit cost reduction normally equal to the number of hours per line-item tas saved by using the VECP on this contract, multiplied b the appropriate contract labor rate.

"Negative instant contract savings" means the increas in the cost or price of this contract when the acceptance c a VECP results in an excess of the Contractor's allowabl development and implementation costs over the product c the instant unit cost reduction multiplied by the number c instant contract units affected.

"Net acquisition savings" means total acquisition sav ings, including instant, concurrent, and future contract sav ings, less Government costs.

"Sharing base," as used in this clause, means the num ber of affected end items on contracts of the contractin office accepting the VECP.

"Sharing period," as used in this clause, means the per od beginning with acceptance of the first unit incorporatin the VECP and ending at the later of (1) 3 years after th first unit affected by the VECP is accepted or (2) the la scheduled delivery date of an item affected by the VEC under this contract's delivery schedule in effect at the tim the VECP is accepted.

"Unit," as used in this clause, means the item or task t which the Contracting Officer and the Contractor agree th VECP applies.

"Value engineering change proposal (VECP)" means proposal that—

(1) Requires a change to this, the instant contract, implement; and

(2) Results in reducing the overall projected cost

the agency without impairing essential functions or characteristics; *provided*, that it does not involve a change—

(i) In deliverable end item quantities only;

(ii) In research and development (R&D) end items or R&D test quantities that is due solely to results of previous testing under this contract; or

(iii) To the contract type only.

(c) *VECP preparation.* As a minimum, the Contractor shall include in each VECP the information described in subparagraphs (1) through (8) below. If the proposed change is affected by contractually required configuration management or similar procedures, the instructions in those procedures relating to format, identification, and priority assignment shall govern VECP preparation. The VECP shall include the following:

(1) A description of the difference between the existing contract requirement and the proposed requirement, the comparative advantages and disadvantages of each, a justification when an item's function or characteristics are being altered, the effect of the change on the end item's performance, and any pertinent objective test data.

(2) A list and analysis of the contract requirements that must be changed if the VECP is accepted, including any suggested specification revisions.

(3) Identification of the unit to which the VECP applies.

(4) A separate, detailed cost estimate for (i) the affected portions of the existing contract requirement and (ii) the VECP. The cost reduction associated with the VECP shall take into account the Contractor's allowable development and implementation costs, including any amount attributable to subcontracts under the Subcontracts paragraph of this clause, below.

(5) A description and estimate of costs the Government may incur in implementing the VECP, such as test and evaluation and operating and support costs.

(The next page is 52-281.)

(6) A prediction of any effects the proposed change would have on collateral costs to the agency.

(7) A statement of the time by which a contract modification accepting the VECP must be issued in order to achieve the maximum cost reduction, noting any effect on the contract completion time or delivery schedule.

(8) Identification of any previous submissions of the VECP, including the dates submitted, the agencies and contract numbers involved, and previous Government actions, if known.

(d) *Submission.* The Contractor shall submit VECP's to the Contracting Officer, unless this contract states otherwise. If this contract is administered by other than the contracting office, the Contractor shall submit a copy of the VECP simultaneously to the Contracting Officer and to the Administrative Contracting Officer.

(e) *Government action.* (1) The Contracting Officer shall notify the Contractor of the status of the VECP within 45 calendar days after the contracting office receives it. If additional time is required, the Contracting Officer shall notify the Contractor within the 45-day period and provide the reason for the delay and the expected date of the decision. The Government will process VECP's expeditiously; however, it shall not be liable for any delay in acting upon a VECP.

(2) If the VECP is not accepted, the Contracting Officer shall notify the Contractor in writing, explaining the reasons for rejection. The Contractor may withdraw any VECP, in whole or in part, at any time before it is accepted by the Government. The Contracting Officer may require that the Contractor provide written notification before undertaking significant expenditures for VECP effort.

(3) Any VECP may be accepted, in whole or in part, by the Contracting Officer's award of a modification to this contract citing this clause and made either before or within a reasonable time after contract performance is completed. Until such a contract modification applies a VECP to this contract, the Contractor shall perform in accordance with the existing contract. The Contracting Officer's decision to accept or reject all or part of any VECP and the decision as to which of the sharing rates applies shall be final and not subject to the Disputes clause or otherwise subject to litigation under the Contract Disputes Act of 1978 (41 U.S.C. 601-613).

(f) *Sharing rates.* If a VECP is accepted, the Contractor shall share in net acquisition savings according to the percentages shown in the table below. The percentage paid the Contractor depends upon (1) this contract's type (fixed-price, incentive, or cost-reimbursement), (2) the sharing arrangement specified in paragraph (a) above (incentive, program requirement, or a combination as delineated in the Schedule), and (3) the source of the savings (the instant contract, or concurrent and future contracts), as follows:

CONTRACTOR'S SHARE OF NET ACQUISITION SAVINGS
(figures in percent)

Contract Type	Sharing Arrangement: Incentive (voluntary)		Sharing Arrangement: Program requirement (mandatory)
	Instant contract rate	Concurrent and future contract rate	Instant contract rate
Fixed-price (other than incentive)	50	50	25
Incentive (fixed-price or cost)	*	50	*
Cost-reimbursement (other than incentive)**	25	25	15

* Same sharing arrangement as the contract's profit or fee adjustment formula.

** Includes cost-plus-award-fee contracts.

(g) *Calculating net acquisition savings.* (1) Acquisition savings are realized when (i) the cost or price is reduced on the instant contract, (ii) reductions are negotiated on concurrent contracts, (iii) future contracts are awarded, or agreement is reached on a lump-sum payment for instant contract savings (see subparagraph (i)(4) below). Net acquisition savings are first realized, and the Contractor shall be paid a share, when Government costs and any negative instant contract savings have been fully offset against acquisition savings.

(2) Except in incentive contracts, Government costs and any price or cost increases resulting from negative instant contract savings shall be offset against acquisition savings each time such savings are realized until they are fully offset. Then, the Contractor's share is calculated by multiplying net acquisition savings by the appropriate Contractor's percentage sharing rate (see paragraph (f) above). Additional Contractor shares in net acquisition savings shall be paid to the Contractor at the time realized.

(3) If this is an incentive contract, recovery of Government costs on the instant contract shall be deferred and offset against concurrent and future contract savings. The Contractor shall share through the contract incentive structure in savings on the instant contract items affected. Any negative instant contract savings shall be added to the target cost or to the target price and ceiling price, and the amount shall be offset against concurrent and future contract savings.

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(4) If the Government does not receive and accept all items on which it paid the Contractor's share, the Contractor shall reimburse the Government for the proportionate share of these payments.

(h) *Contract adjustment.* The modification accepting the VECP (or a subsequent modification issued as soon as possible after any negotiations are completed) shall—

(1) Reduce the contract price or estimated cost by the amount of instant contract savings, unless this is an incentive contract;

(2) When the amount of instant contract savings is negative, increase the contract price, target price and ceiling price, target cost, or estimated cost by that amount;

(3) Specify the Contractor's dollar share per unit on future contracts, or provide the lump-sum payment;

(4) Specify the amount of any Government costs or negative instant contract savings to be offset in determining net acquisition savings realized from concurrent or future contract savings; and

(5) Provide the Contractor's share of any net acquisition savings under the instant contract in accordance with the following:

(i) Fixed-price contracts—add to contract price.

(ii) Cost-reimbursement contracts—add to contract fee.

(i) *Concurrent and future contract savings.* (1) Payments of the Contractor's share of concurrent and future contract savings shall be made by a modification to the instant contract in accordance with subparagraph (h)(5) above. For incentive contracts, shares shall be added as a separate firm-fixed-price line item on the instant contract. The Contractor shall maintain records adequate to identify the first delivered unit for 3 years after final payment under this contract.

(2) The Contracting Officer shall calculate the Contractor's share of concurrent contract savings by (i) subtracting from the reduction in price negotiated on the concurrent contract any Government costs or negative instant contract savings not yet offset and (ii) multiplying the result by the Contractor's sharing rate.

(3) The Contracting Officer shall calculate the Contractor's share of future contract savings by (i) multiplying the future unit cost reduction by the number of future contract units scheduled for delivery during the sharing period, (ii) subtracting any Government costs or negative instant contract savings not yet offset, and (iii) multiplying the result by the Contractor's sharing rate.

(4) When the Government wishes and the Contractor agrees, the Contractor's share of future contract savings may be paid in a single lump sum rather than in a series of payments over time as future contracts are awarded. Under this alternate procedure, the future contract savings may be calculated when the VECP is accepted, on the basis of the Contracting Officer's forecast of the number of units that will be delivered during the sharing period. The Contractor's share shall be included in a modification to this contract (see subparagraph (h)(3) above) and shall not be subject to subsequent adjustment.

(5) Alternate no-cost settlement method. When, in accordance with subsection 48.104-3 of the Federal Acquisition Regulation, the Government and the Contractor mutually agree to use the no-cost settlement method, the following applies:

(i) The Contractor will keep all the savings on the instant contract and on its concurrent contracts only.

(ii) The Government will keep all the savings resulting from concurrent contracts placed on other sources, savings from all future contracts, and all collateral savings.

(j) *Collateral savings.* If a VECP is accepted, the instant contract amount shall be increased, as specified in subparagraph (h)(5) above, by 20 percent of any projected collateral savings determined to be realized in a typical year of use after subtracting any Government costs not previously offset. However, the Contractor's share of collateral savings shall not exceed (1) the contract's firm-fixed-price, target price, target cost, or estimated cost, at the time the VECP is accepted, or (2) $100,000, whichever is greater. The Contracting Officer shall be the sole determiner of the amount of collateral savings, and that amount shall not be subject to the Disputes clause or otherwise subject to litigation under 41 U.S.C. 601-613.

(k) *Relationship to other incentives.* Only those benefits of an accepted VECP not rewardable under performance, design-to-cost (production unit cost, operating and support costs, reliability and maintainability), or similar incentives shall be rewarded under this clause. However, the targets of such incentives affected by the VECP shall not be adjusted because of VECP acceptance. If this contract specifies targets but provides no incentive to surpass them, the value engineering sharing shall apply only to the amount of achievement better than target.

(l) *Subcontracts.* The Contractor shall include an appropriate value engineering clause in any subcontract of $100,000 or more and may include one in subcontracts of lesser value. In calculating any adjustment in this contract's price for instant contract savings (or negative instant contract savings), the Contractor's allowable development and implementation costs shall include any subcontractor's allowable development and implementation costs, and any value engineering incentive payments to a subcontractor, clearly resulting from a VECP accepted by the Government under this contract. The Contractor may choose any arrangement for subcontractor value engineering incentive payments; *provided*, that the payments shall not reduce the Government's share of concurrent or future contract savings or collateral savings.

(m) *Data.* The Contractor may restrict the Government's

right to use any part of a VECP or the supporting data by marking the following legend on the affected parts:

"These data, furnished under the Value Engineering clause of contract ....., shall not be disclosed outside the Government or duplicated, used, or disclosed, in whole or in part, for any purpose other than to evaluate a value engineering change proposal submitted under the clause. This restriction does not limit the Government's right to use information contained in these data if it has been obtained or is otherwise available from the Contractor or from another source without limitations."

If a VECP is accepted, the Contractor hereby grants the Government unlimited rights in the VECP and supporting data, except that, with respect to data qualifying and submitted as limited rights technical data, the Government shall have the rights specified in the contract modification implementing the VECP and shall appropriately mark the data. (The terms "unlimited rights" and "limited rights" are defined in Part 27 of the Federal Acquisition Regulation.)

(End of clause)

Alternate I (APR 1984). If the contracting officer selects a mandatory value engineering program requirement, substitute the following paragraph (a) for paragraph (a) of the basic clause:

(a) *General.* The Contractor shall (1) engage in a value engineering program, and submit value engineering progress reports, as specified in the Schedule and (2) submit to the Contracting Officer any resulting value engineering change proposals (VECP's). In addition to being paid as the Schedule specifies for this mandatory program, the Contractor shall share in any net acquisition savings realized from accepted VECP's, in accordance with the program requirement sharing rates in paragraph (f) below.

(R 7-104.44(b) 1974 APR)

Alternate II (APR 1984). If the contracting officer selects *both* a value engineering incentive and mandatory value engineering program requirement, substitute the following paragraph (a) for paragraph (a) of the basic clause:

(a) *General.* For those contract line items designated in the Schedule as subject to the value engineering program requirement, the Contractor shall (1) engage in a value engineering program, and submit value engineering progress reports, as specified in the Schedule and (2) submit to the Contracting Officer any resulting VECP's. In addition to being paid as the Schedule specifies for this mandatory program, the Contractor shall share in any net acquisition savings realized from VECP's accepted under the program, in accordance with the program requirement sharing rates in paragraph (f) below. For remaining areas of the contract, the Contractor is encouraged to develop, prepare, and submit VECP's voluntarily; for VECP's accepted under these remaining areas, the incentive sharing rates apply.

(NM)

Alternate III (APR 1984). When the head of the contracting activity determines that the cost of calculating tracking collateral savings will exceed the benefits derived in a contract calling for a value engineering in tive, delete paragraph (j) from the basic clause and red nate the remaining paragraphs accordingly.

REQUEST FOR CLOSEOUT INFORMATION

From:
To:

Subj: REQUEST FOR CLOSEOUT INFORMATION UNDER CONTRACT _____ - - - _____WITH (INSERT CONTRACTOR'S NAME, ADDRESS, CITY, STATE AND ZIP Code

Ref: (a) Requisition No._____

1. ____ Pursuant to FAR 4.804, Closeout of Contract Files, it is requested that the PCO be furnished evidence of final payment under subject contract by MILSCAP PK9 card or the completed questionnaire below.

_____ Prior to closeout of contract, this office requires notification of date material and/or services were received/completed and accepted. To permit closing of subject contract, request DD Form 250 or the completed questionnaire below be furnished.

2. Reply is requested no later than (date). Questions concerning above may be addressed to (Contract Administrator, Code, (AUTOVON and commercial phone number).

By direction

CONTRACT NO. _____ DATED _____

VOUCHER NO. _____ AMOUNT _____

EXCESS FUNDS: _____YES _____NO IF YES,AMOUNT_____

MATERIAL/SERVICES INSPECTED AND ACCEPTED ON ___(DATE)_____

SUBMITTED BY: (SIGNATURE)_____ DATE:_____

Exhibit B

SUBPART 204.8--CONTRACT FILES

204.802 Contract files.

Official contract files shall consist of--

(1) Only original, authenticated or conformed copies of contractual instruments--

(i) "Authenticated copies" means copies that are shown to be genuine in one of two ways

(A) Certification as true copy by signature of an authorized person; or

(B) Official seal.

(ii) "Conformed copies" means copies that are complete and accurate, including the date signed and the names and titles of the parties who signed them.

(2) Signed or official record copies of correspondence, memoranda, and other documents.

204.804 Closeout of contract files.

Normally, the closeout date for contract files is the date in Block 9d on the DD Form 1594, Contract Completion Statement, or in columns 59-65 on the PK9. If the contracting office must do a major closeout action that will take longer than three months after the date shown in Block 9 of the DD Form 1594, or in columns 59-65 of the PK9--

(1) The closeout date for file purposes will be the date in Block 10e of the DD Form 1594 or the date of the closeout statement executed when the MILSCAP PK9 is received.

(2) The contracting office shall notify the contract administration office of the revised closeout date by either sending a copy of the completed DD Form 1594 or by preparing a MILSCAP Format Identifier PKZ, Contract Closeout Extension.

204.804-1 Closeout by the office administering the contract.

(1) For contracting offices administering their own contracts, locally developed forms or statement of completion may be used instead of the DD Form 1594, Contract Completion Statement. Whichever method is used, the form shall be retained in the official contract file.

(2) For contracts valued above the small purchase threshold, prepare a DD Form 1597, Contract Closeout Check List, (or agency equivalent) to ensure that all required contract actions have been satisfactorily accomplished.

204.804-2 Closeout of the contracting office files if another office administers the contract.

(1) When an office, other than the contracting office, administers the contract, it shall--

(i) Provide the contracting office an interim contract completion statement when the contract is physically completed and accepted. This notice may be in the form of either a DD Form 1594, Contract Completion Statement, or a MILSCAP Format Identifier

Interim PK9, Contract Physical Completion. When the DD Form 1594 is used, the contracting officer--

(A) Annotates Block 8, Remarks, with--

(1) "Notice of Physical Completion;"

(2) Final acceptance date;

(3) Signature of a responsible official; and

(4) Date signed.

(B) Does not complete Blocks 9(b), (c), and (d) at this time;

(ii) Prepare a DD Form 1597, Contract Closeout Check List, if necessary, to determine that all the required actions have been done;

(iii) Initiate DD Form 1593, Contract Administration Completion Record, if necessary to obtain statements from other organizational elements that they have completed the actions they are responsible for; and

(iv) Upon final payment--

(A) Process the DD Form 1594 with Blocks 1 through 9 completed or the MILSCAP Format Identifier PK9 verifying that all contract administration office actions have been done; and

(B) Send the original of the DD Form 1594 or the MILSCAP Format Identifier PK9 to the contracting office, and file a copy in the official contract file.

(2) If the administrative contracting officer (ACO) cannot closeout a contract within the specified time period (see FAR 4.804-1), the ACO must notify the procuring contracting officer (PCO) within 45 days after the expiration of the time period of--

(i) The reasons for the delay; and

(ii) New target date for closeout. If MILSCAP procedures apply, the ACO shall use the MILSCAP Format Identifier PKX, Unclosed Contract Status, to provide this notice to the PCO.

(3) If the contract still is not closed out by the new target date, the ACO shall again notify the PCO with the reasons for delay and new target date. If MILSCAP procedures apply, continue to use the MILSCAP Format Identifier PKX, Unclosed Contract Status, to provide this notice.

04.805 Disposal of contract files.

(1) The sources of the period for which official contract files must be retained are General Records Schedule 3 (Procurement, Supply, and Grant Records) and General Records Schedule 6 (Accountable Officers' Accounts Records). Copies of the General Records

Schedule may be obtained from the National Archives and Records Administration, Washington, DC 20408.

(2) Deviations from the periods cannot be granted by the Defense Acquisition Regulations Council. Forward requests for deviations to both the General Accounting Office and the National Archives and Records Administration.

(3) Hold completed contract files in the office responsible for maintaining them for a period of 12 months after completion. After the initial 12 month period, send the records to the local records holding or staging area until they are eligible for destruction. If no space is available locally, transfer the files to the General Services Administration Federal Records Center that services the area.

(4) Duplicate or working contract files should contain no originals of materials that properly belong in the official files. Destroy working files as soon as practicable once they are no longer needed.

(5) Retain pricing review files, containing documents related to reviews of the contractor's price proposals, subject to certification of cost or pricing data (see FAR 15.804-2), for six years. If it is impossible to determine the final payment date in order to measure the six year period, retain the files for nine years.

SUBPART 243.1--GENERAL

243.102 Policy.

(b)(i) See Subpart 217.74 for limitations on issuing undefinitized contract actions.

(ii) Modifications of letter contracts are subject to the same policies and procedures as modifications of definitive contracts.

243.105 Availability of funds.

(a) 10 U.S.C. 2405 prohibits adjustments in price under a shipbuilding contract entered into after December 7, 1983, for a claim, request for equitable adjustment, or demand for payment under the contract, arising out of events occurring more than 18 months before submission of the claim, request, or demand.

243.107 Contract clause.

For DoD, the "specifically authorized representative" (SAR) referred to in the clause at FAR 52.243-7, Notification of Changes, is a "contracting officer's representative" as defined in 202.101 and as discussed in Subpart 201.6.

243.107-70 Notification of substantial impact on employment.

The Secretary of Defense is required to notify the Secretary of Labor if a modification of a major defense contract or subcontract will have a substantial impact on employment. The clause prescribed at 249.7002(c) requires that the contractor notify the contracting officer when a contract modification will have a substantial impact on employment.

243.170 Identification of foreign military sale (FMS) requirements.

Identify contract modifications that add FMS requirements by clearly marking "FMS Requirement" on the front. Within the modification, cite each FMS case identifier code by line/subline item number, e.g., FMS Case Identifier GY-D-DCA.

SUBPART 245.6--REPORTING, REDISTRIBUTION, AND DISPOSAL OF CONTRACTOR INVENTORY

245.601 Definitions.

(1) "Controlled substances" means--

(i) Narcotic, depressant, stimulant, or hallucinogenic drug or substance;

(ii) Any other drug or substance controlled under Title II of the Comprehensive Drug Abuse Prevention and Control Act of 1970; or

(iii) A drug or substance required to be controlled by international treaty, convention or protocol.

(2) "Demilitarization" means the act of destroying the offensive or defensive characteristics of equipment or material to prevent its further military or lethal use.

(3) "Production scrap" means material left over from the normal production process that has only remelting or reprocessing value, e.g., textile and metal clippings, borings, and faulty castings and forgings.

(4) "Serviceable or usable property" means property that has a potential for use or sale value "as is" or with minor repairs or alterations; only property in Federal Condition Codes A1, A2, A4, A5, B1, B2, B4, B5, F7, or F8.

245.603 Disposal methods.

245.603-70 Contractor performance of plant clearance duties.

(a) *Authorization.*

(1) Contract administration offices (CAOs) may, with head of the contracting activity approval and contractor concurrence, authorize selected contractors to perform certain plant clearance functions if the volume of plant clearance warrants performance by the contractor.

(2) The written authorization shall, as a minimum--

(i) Designate the contractor as an "accredited contractor";

(ii) Identify the plant clearance actions to be performed;

(iii) State that the Government may cancel part of or all of the authorization to perform plant clearance actions; and

(iv) Provide for plant clearance officer participation when required.

b) *Government oversight and assistance.*

(1) The contract administration office will ensure regular evaluation of the contractor's performance of the plant clearance function and any corrective action required.

(2) The plant clearance officer shall--

(i) Evaluate the adequacy and ensure compliance with contractor procedures;

(ii) Ensure discrepancies are promptly resolved;

(iii) Advise the contractor of screening and inventory schedule requirements;

(iv) Respond to contractor requests to withdraw Government-furnished property from inventory schedules;

(v) Evaluate physical, quantitative, and technical allocability of contractor inventory prior to disposal using Standard Form 1423, Inventory Verification Survey, as a guide;

(vi) Direct contractor to delay disposition of nonallocable inventory pending a contracting officer decision;

(vii) With the contractor's assistance, establish criteria for review and approval of selected contractor disposal decisions;

(viii) Complete first endorsement section of DD Form 1640, Request for Plant Clearance, on referrals from plant clearance officers at prime contract administration offices for the disposal of subcontractor inventory; forward inventory schedules to the contractor for processing; and forward completed case file to the referring activity; and

(ix) Work with the contractor, screeners, and buyers to ensure that the Government receives maximum reutilization and disposal proceeds.

c) *Accredited contractor plant clearance duties.*
The accredited contractor shall--

(1) Ensure inventory schedule acceptability. Use DD Form 1637, Notice of Acceptance of Inventory, if desired;

(2) Suspend disposition of property when assets are determined nonallocable (FAR 45.606-3);

(3) Withdraw property from inventory schedules and notify the affected screening activities. Obtain plant clearance officer approval for withdrawal of Government furnished property from inventory schedules (FAR 45.606-4);

(4) Determine method of disposal under established priorities and document disposal decisions and actions;

CONTRACT COMPLETION STATEMENT

1. FROM: *(Contract Administration Office)*	2a. PII NUMBER 2b. LAST MODIFICATION NUMBER P000 2c. CALL/ORDER NUMBER
3. TO: *(Name and Address of Purchasing Office and Office Symbol of the PCO, if known)*	4. CONTRACTOR IDENTITY CODE AND ADDRESS 5. EXCESS FUNDS ☐ YES ☐ NO $

6a. IF FINAL PAYMENT HAS BEEN MADE, COMPLETE ITEMS 6b., AND 6c.	6b. VOUCHER NUMBER	6c. DATE
7a IF FINAL APPROVED INVOICE FORWARDED TO D.O. OF ANOTHER ACTIVITY AND STATUS OF PAYMENT IS UNKNOWN, COMPLETE ITEMS 7b, AND 7c.	7b. INVOICE NUMBER	7c. DATE FORWARDED

8. REMARKS

9a. ALL ADMINISTRATION OFFICE ACTIONS REQUIRED HAVE BEEN FULLY AND SATISFACTORILY ACCOMPLISHED. THIS INCLUDES FINAL SETTLEMENT IN THE CASE OF A PRICE REVISION CONTRACT

9b. TYPED NAME OF RESPONSIBLE OFFICIAL	9c. SIGNATURE	9d. DATE

FOR PURCHASING OFFICE USE ONLY

10a. ALL PURCHASING OFFICE ACTIONS REQUIRED HAVE BEEN FULLY AND SATISFACTORILY ACCOMPLISHED. CONTRACT FILE OF THIS OFFICE IS HEREBY CLOSED AS OF:

☐ DATE SHOWN IN ITEM 9d. ABOVE.

☐ DATE SHOWN IN ITEM 10a. BELOW. *(Check this box only if final completion of any significant purchasing office action extends more than three months beyond close-out date shown in item 9d. above. In such cases, submit a copy of the completed form upon final accomplishment of all purchasing office actions to the contract administration office. (Upon receipt, the contract administration office shall extend its contract file close-out date accordingly.))*

10b. REMARKS

ALL ACTIONS REQUIRED BY FAR 4.804-5(a), PARAGRAPHS (1)-(15) HAVE BEEN VERIFIED AND COMPLETED IN PREPARATION FOR CLOSEOUT OF THE CONTRACT FILE.

__ IN ACCORDANCE WITH NAVCOMPT MANUAL PARAGRAPH 046656, FINAL PAYMENT NOTICE IS NOT REQUIRED ON INDEFINITE DELIVERY TYPE CONTRACTS.

__ TIME AND MATERIAL LABOR HOUR/COST TYPE CONTRACT. FILE CONTAINS COMPLETION/FINAL INVOICE OR VOUCHER, DCAA FINAL AUDIT, CONTRACTOR'S SUBMISSION OF FINAL RELEASE AND CONTRACTOR'S ASSIGNMENT OF REFUNDS, REBATES, CREDITS, ETC.

10c. TYPED NAME OF RESPONSIBLE OFFICIAL (CONTRACTING OFFICER)	10d. SIGNATURE (CONTRACTING OFFICER)	10e. DATE

DD FORM 1594
1 FEB 70

REPLACES EDITION OF 1 JUN 68 WHICH IS OBSOLETE

☆ U.S. Government Printing Office: 1985—505-012/26298 2-1

S/N 0102-LF-016-350

EXHIBIT D

ACTIVITY 1 IDST LIST PRODUCT P203D 90179 19:25 PAGE 0001

RECORD NO. TRANSACTION

1 $ TO 203-AUTODIN

2 PK9N0061290MNL99A00001S2305AN00612 A 90JUN27 90JUN27

3 A4 PK9N006129DCT059P00001S1103AN00612000000008 90JAN3090FEB0590JUN28573000 A8763N

CH 1
DoD 4105.63-M

CONTRACT COMPLETION STATEMENT	DoD LOC STA MILSCAP DOCUMENT IDENT.	PII NUMBER	CALL/ORDER LAST MOD NUMBER	CAO IDENTITY	PO IDENTITY	UNLIQUIDATED AMOUNT	CLOS TIME GP	DATE PHYSICALLY COMPLETED			DATE OF FINAL PAYMENT			DATE CONTRACT COMPLETED			DISBURSING OFFICER IDENTITY	VOUCHER NUMBER	RESERVED	TRANS STATUS
								YR	MO	DA	YR	MO	DA	YR	MO	DA				
-	2 3	4 5 6 7 8 9 10 11 12 13 14 15 16	17 18 19 20 21 22	23 24 25 26 27 28	29 30 31 32 33 34	35 36 37 38 39 40 41 42	43	44 45 46	47 48 49	50 51	52 53	54 55 56	57 58	59 60	61 62 63	64 65	66 67 68 69 70 71	72 73 74 75 76 77	78	79 80

COLUMNS/ POSITION

43 CONTRACT CLOSEOUT GROUP

Code	Explanation
A	Fixed price unilateral purchase orders. The final Contract Completion Statement (PK9) is automatically issued to the Purchasing Office when the purchase order is physically complete.
B	Firm fixed price contracts. The final Contract Completion Statement (PK9) is automatically issued to the Purchasing Office when final payment is made.
C	Contracts requiring settlement of overhead rates, i.e., contracts that are appendix A8 codes R, S, T, and U. The final Contract Completion Statement (PK9) is automatically issued to the Purchasing Office when all administrative actions are completed and final payment has been made.
D	All other contracts. The final Contract Completion Statement (PK9) is automatically issued to the Purchasing Office when all administrative actions are completed and final payment has been made.

78 EXCESS FUNDS

Code	
Y	Yes - Amount in Columns 35-42
N	No

NOTE: IF MILSCAP PK9 DOES NOT CONTAIN STATEMENT THAT ALL REQUIRED CONTRACT ADMINISTRATION ACTIONS HAVE BEEN FULLY AND SATISFACTORILY ACCOMPLISHED, COMPLETE DD Form 1594 AND REFERENCE ATTACHED PK9.

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EXHIBIT E

046656 CONTRACT COMPLETION STATUS REPORTING

To satisfy the requirements of Defense Acquisition Regulation, Supplement No. 2, when final payment is made on a contract with a face value exceeding $10,000, notification will be furnished to the contract administration office designated in the contract. The notification will identify the contract by number and will show voucher number, amount, and date of final payment, and amount of excess funds, if any, by each set of accounting data involved. When the contract does not designate a contract administration office, notification of final payment will be forwarded to the purchasing office. When a contract cites funds of more than one agency and designates more than one paying office, the notification of final payment will state that final payment has been made against that portion of the contract specified to be paid by the reporting office. Final payment notification is not required for basic ordering agreements, Federal Supply contracts, or indefinite delivery type contracts but notification will be furnished for individual orders in excess of $10,000 issued against such contractual documents.

43.105 (DFARS 243.105) Availability of funds.

(S-70)(2) Subject to the limitations prescribed in (S-90) below, authority is hereby delegated to ACOs to execute contract modifications providing for the deobligation of unexpended dollar balances considered excess to known contract requirements in those applicable DoN contracts assigned for administration. The ACO shall execute a bilateral contract modification reducing the dollar balance of the contract when it is determined that excess funds are available for deobligation. If more than one appropriation is involved, the excess amount for each appropriation shall be identified. The ACO is authorized to include statements of funding contingencies reserved by either party for further Government obligation and to affect a net reduction of the dollar balance of obligated DoN funds.

(S-90) Limitations. This delegation applies only to that portion of:

(1) DoN cost reimbursement contracts where DoN funds are involved; and

(2) DoN fixed-price contracts where DoN funds are obligated or committed pursuant to provisioning procedures, or where DoN funds for engineering services and related support are involved.

CONTRACT CLOSEOUT CHECK-LIST

(Continue on reverse for any comments)

1. CONTRACT NUMBER	
2. CONTRACT MODIFICATION NUMBERS *(If applicable)*	
3. NAME OF CONTRACTOR	
4. DATE OF PHYSICAL COMPLETION *(YYMMDD)*	

5. ACTION ITEMS	6. MILESTONES/CALENDAR MONTHS AFTER PHYSICAL COMPLETION (FAR 4.804-1)			7. FORECAST COMPLETION DATE (YYMMDD)	8. DATE ACTION COMPLETED (YYMMDD) (NA if not applicable)
	Category 2	Category 3	Category 4		
a. DISPOSITION OF CLASSIFIED MATERIAL COMPLETED					
b. FINAL PATENT REPORT SUBMITTED *(Inventions Disclosures)* DD 882					
c. FINAL ROYALTY REPORT SUBMITTED					
d. FINAL PATENT REPORT CLEARED *(Inventions Disclosures)*					
e. FINAL ROYALTY REPORT CLEARED					
f. ISSUANCE OF REPORT OF CONTRACT COMPLETION					
g. NO OUTSTANDING VALUE ENGINEERING CHANGE PROPOSAL *(VECP)*					
h. PLANT CLEARANCE REPORT RECEIVED DD 1593					
i. PROPERTY CLEARANCE RECEIVED DD 1593					
j. SETTLEMENT OF ALL INTERIM OR DISALLOWED COSTS *(DCAA Form 1)*					
k. PRICE REVISION COMPLETED					
l. SETTLEMENT OF SUBCONTRACTS BY THE PRIME CONTRACTOR					
m. PRIOR YEAR OVERHEAD RATES COMPLETED					
n. CONTRACTOR'S CLOSING STATEMENT RECEIVED					
o. FINAL SUBCONTRACTING PLAN REPORT SUBMITTED					
p. TERMINATION DOCKET COMPLETED DD 1593					
q. CONTRACT AUDIT COMPLETED					
r. CONTRACTOR'S CLOSING STATEMENT COMPLETED					
s. FINAL VOUCHER SUBMITTED SF 1034					
t. FINAL PAID VOUCHER RECEIVED SF 1034					
u. FINAL REMOVAL OF EXCESS FUNDS RECOMMENDED					
v. ISSUANCE OF CONTRACT COMPLETION STATEMENT *(Or MILSCAP Format Identifier PK9)*	6	36	20		
w. OTHER REQUIREMENTS COMPLETED *(Specify)*					

9. RESPONSIBLE OFFICIAL		
a. TYPED NAME *(Last, First, Middle Initial)*	b. TITLE	
c. SIGNATURE *(Sign only upon completion of all actions)*		d. DATE SIGNED *(YYMMDD)*

DD Form 1597, NOV 88 *Previous editions are obsolete* 226330

EXHIBIT H

CONTRACT ADMINISTRATION COMPLETION RECORD

1. SUSPENSE DATE

2. FROM

3. CONTRACT NUMBER

AS AMENDED BY MODIFICATIONS NUMBERED THROUGH _____

4. TO (*Organizational element performing function checked below*)

5. NAME OF CONTRACTOR

The contract identified above has been physically completed (*i.e., all required deliveries or shipments have been made and/or services performed or terminated*).

Request column 6c or 6d and 6e and 6f be completed with regard to the function checked in column 6a and this form returned by the suspense date indicated in item 1. If only an anticipated date of completion of required actions can be given by the suspense date, a subsequent advice of final action is requested.

If contract being closed is classified, send signed copy of this form marked "INFORMATION COPY" to cognizant Industrial Security Office.

6. STATUS OF ACTION(S)

"X" a	FUNCTION b	"X" IF REQUIRED ACTION(S) COMPLETED c	ANTICIPATED DATE FOR COMPLETION OF ACTION(S) d	SIGNATURE e	DATE f
	PROPERTY ADMINISTRATION				
	PLANT CLEARANCE				
	CONTRACT TERMINATION				
	OTHER (*Specify*)				

7. REMARKS

8. TYPED NAME OF RESPONSIBLE OFFICIAL	9. SIGNATURE	10. DATE

DD FORM 1 APR 80 1593

REPLACES EDITION OF 1 FEB 57 WHICH IS OBSOLETE.

EXHIBIT I

(CONTRACTOR)

Subject: Contract _____ - - - _____

Gentlemen:

The subject contract covered (description of supplies/ services) for the period _____ to _____ as required by (customer) .

Pursuant to the provisions of FAR Clause 52.216-7 entitled "Allowable Cost and Payment"(for Cost Reimbursement contracts)/FAR Clause 52.232-7 entitled "Payments under Time-and-Materials and Labor-Hour Contracts" (for T&M/LH contracts), it is requested that the following documentation be provided to the undersigned with copies to the cognizant Defense Contract Audit Agency:

*a. Proposal for the Final Indirect Cost Rates or submission for quick closeout procedures;

b. Completion Invoice or Voucher;

c. Contractor's Release Statement; and

d. Contractor's Assignment of Refunds, Rebates and Credits.

A response to this letter is requested no later than (date). Any circumstances which prevent the submission of the requested date or questions concerning above may be addressed to (Administrator's name, Code, Phone number).

Sincerely,

Contracting Officer

cc:
DCAA

*Applies to Cost Reimbursement Contracts - Delete if T&M or LH.

Exhibit J

From:
To:

Subj: REQUEST FOR FINAL CLOSEOUT AUDIT ON (CONTRACTOR'S NAME) UNDER CONTRACT _____ - - - _____

Ref: (a) FAR Clause 52.216-7/52.232-7
(b) FAR 4.804-5(a)

1. The subject contract expired on (expiration date). In accordance with references (a) and (b), a final audit is requested for contract closeout.

2. The final audit report should include the contractor's release statement, a copy of completion voucher or invoice and the contractor's assignment of refunds, rebates and credit.

3. Circumstances which prevent submission of the above data by (90 days) or questions concerning this request may be directed to (Contractor Administrator, Code, AUTOVON and commercial phone numbers).

By direction

Exhibit K

CONTRACTOR'S ASSIGNMENT OF REFUNDS, REBATES AND CREDITS

Contract No. _____ - - -_____

Pursuant to the terms of Contract No. _____ - -_____ and in consideration of the reimbursement of (cost and payment of fee/time and material/labor hours), as provided in the said contract and any assignment thereunder, (contractor's name), (hereinafter called the Contractor) does hereby:

1. Assign, transfer, set over and release to the United States of America (hereinafter called the Government), all right, title and interest to all refunds, rebates, credits (including any related interest) arising out of the performance of the said contract, together with all the rights of action accrued or which may hereafter accrue thereunder.

2. Agree to take whatever action may be necessary to effect prompt collection of all refunds, rebates, credits, (including any related interest) due or which may become due, and to promptly forward to the Commanding Officer, (requestor) _____ checks (made payable to the Treasurer of the United States) for any proceeds so collected. The reasonable costs of any such action to effect collection shall constitute allowable costs when approved by the Contracting Officer as stated in the said contract and may be applied to reduce any amounts otherwise payable to the Government under the terms hereof.

3. Agree to cooperate fully with the Government as to any claim or suit in connection with refunds, rebates, credits (including any related interest); to execute any protest, pleading, application, power of attorney or other papers in connection therewith; and to permit the Government to represent it at any hearing, trial or other proceeding arising out of such claim or suit.

IN WITNESS WHEREOF, this assignment has been executed this ____ day of (month), 1992.

_____
Contractor

BY_____
TITLE_____

Exhibit L

CONTRACTOR'S ASSIGNMENT OF REFUNDS, REBATES AND CREDITS

CERTIFICATE

I, _____, certify that I am the _
(title) _____ of the corporation named as Contractor in the foregoing assignment; that _____ who signed said assignment on behalf of the Contract was then (title) _____ of said corporation; that said assignment was duly signed for and in behalf of said corporation by authority of its government body and is within the scope of its corporate powers.

(CORPORATE SEAL)

_____(Signature)_____

Exhibit L

CONTRACTOR'S RELEASE

Contract No. _____ - - - _____

Pursuant to the terms of Contract No. _____ - - - _____ and the consideration of the sum of (spell out amount in dollars) dollars and (spell out cents) cents ($ _____ .) which has been or is to be paid under the said contract to (contractor's name) (hereinafter called the Contractor) or to its assignees, if any, the Contractor upon payment of the said sum by the United States of America hereinafter called the Government), does remise, release, and discharge the Government, its officers, agents, and employees of and from all liabilities, obligations, claims, and demands whatsoever arising out of or under this contract, subject only to the following exception:

1. Specified claims in stated amounts, or in estimated amounts if the amounts are not susceptible of exact statement by the Contractor, as follows: NONE

2. Claims, together with reasonable incidental expenses, based upon the liabilities of the Contractor to third parties arising out of performing this contract, that are not known to the Contractor on the date of the execution of the release, and or which the Contractor gives notice in writing to the Contracting Officer not more that 6 years after the date of the release or the date of any notice to the Contractor that the Government is prepared to make final payment, whichever is earlier; and

3. Claims for reimbursement of costs, including reasonable incidental expenses, incurred by the Contractor under the patent clauses of the contract, excluding, however, any expenses arising from the Contractor's indemnification of the Government against patent liability.

The Contract agrees, in connection with the patent matters and with claims which are not released as set forth above, that it will comply with all of the provisions of the said contract, including without limitation those provisions relating to notification to the Contracting Officer and relating to the defense or prosecution of litigation.

IN WITNESS WHEREOF, this release has been executed this ___ day of (month), 1992.

(Contractor)

BY_____
TITLE_____

CERTIFICATE

I, _____, certify that I am the (title)_____ of the corporation named as Contractor in the foregoing release; that _____ who signed said release on behalf of the Contractor was then _ (title)_____ of said corporation; that said release was duly signed for and in behalf of said corporation by authority of its government body and is within the scope of its corporate powers.

(CORPORATE SEAL)

(Signature)

Exhibit M

From: Contracting Officer,...
To: Disbursing Officer, _____

Subj: FINAL PAYMENT UNDER CONTRACT _____ - - - _____ WITH (CONTRACTOR, ADDRESS)_____

Ref: (a) FAR Clause 52.232-7

Encl: (1) (Contractor's Name) Voucher #_____
(2) Breakdown of Charges
(3) Contractor's Release
(4) Contractor's Assignment of Refunds, Rebates, and Credits

In accordance with reference (a), it is requested funds withheld under subject contract in the amount of $_____ be released as final payment under the completion invoice enclosed.

Contracting Officer

Exhibit N

REPORT OF INVENTIONS AND SUBCONTRACTS
(Pursuant to "Patent Rights" Contract Clause) (See Instructions on Reverse Side)

Form Approved OMB No. 0709-0240
Expire Sep 30, 1988

1a. Name of Contractor/Subcontractor	1c. Contract Number	2a. Name of Government Prime Contractor	c. Contract Number	3. Type of Report (x one) a. interim	b. final
b. Address (include zip code)	d. Award date (YYMMDD)	b. Address (include zip code)	d. Award date (YYMMDD)	4. Reporting period (YYMMDD) a. From b. To	

SECTION I - SUBJECT INVENTIONS

5. "Subject Inventions" required to be reported by contractor/subcontractor (if "none", so state)

a. Name of inventor(s) Last, First, M	b. Title of invention(s)	c. Disclosure No. Patent Application serial No. or Patent No.	d. Election to file Patent Applications 1. U.S. Yes No	d. Election to file Patent Applications 2. Foreign Yes No	e. Confirmatory instrument or assignment forwarded to Contracting Officer Yes No

f. Employer of inventor(s) not employed by contractor/subcontractor		g. Elected foreign countries in which a patent application will be filed	
1a) Name of Inventor Last, First, M	2a) Name of inventor Last, First, M	1) Title of Invention	2) Foreign countries of patent application
b) Name of employer	b) Name of employer		
c) Address of employer	c) Address of employer		

SECTION II - SUBCONTRACTS (Containing a "Patent Rights" clause)

6. Subcontracts awarded by contractor/subcontractor (if "none" so state)

a. Name of subcontractor(s)	b. Address (include zip code)	c. Subcontract No(s)	d. DFAR Patent Rights 1) Clause Number	d. DFAR Patent Rights 2) Date	e. Description of work to be performed under subcontract(s)	f. Subcontract dates (YYMMDD) 1) Award 2) Estimated Completion

SECTION III - CERTIFICATION

7. Certification of report by contractor/subcontractor not required if	Small Business or	Non profit organization (x appropriate box)
a. Name of authorized contractor/subcontractor official	c. I certify that the reporting party has procedures for prompt identification and timely disclosure of "subject inventions," that such procedures have been followed and that all "subject inventions" have been reported.	
b. Title	d. Signature	e. Date signed

EXHIBIT O

DD FORM 882 INSTRUCTIONS

General

This form is for use in submitting INTERIM and FINAL invention reports to the Contracting Officer and for use in the prompt notification of the award of subcontracts containing a "Patent Rights Clause if the form does not afford sufficient space, multiple forms may be used or plain sheets of paper with proper identification of information by Item Number may be attached.

An INTERIM report is due at least every 12 months from the date of contract awards and shall include (a) a listing of "Subject Inventions" during the reporting period, (b) a certification of compliance with required invention identification and disclosure procedures together with a certification of reporting of all "Subject Inventions," and (c) any required information not previously reported on subcontracts awarded during the reporting period and containing a "Patent Rights" clause. While the form may be used for simultaneously reporting inventions and subcontracts, it may also be used for reporting, promptly after award, subcontracts containing a "Patent Rights" clause.

Dates shall be entered where indicated in certain items on this form and shall be entered in four or six digit numbers in the order of year and month (YYYMM) or year, month, and day (YYMMDD) Example: April 1986 should be entered as 8604 and April 15, 1986 should be entered as 860415

Item 1a. Self-explanatory.

Item 1b. Self-explanatory.

Item 1c. if "same" as item 2c, so state.

Item 1d. Self-explanatory.

Item 2a. If "same" as item 1a, so state.

Item 2b. Self-explanatory

Item 2c Procurement Instrument Identification (PII) number of contract (DFAR 4.7003).

Item 2d thru 52. Self-explanatory.

Item 5f. The name and address of the employer of each inventor not employed by the contractor or subcontractor is needed because the Government's rights in a reported invention may not be determined solely by the terms of the "Patent Rights" clause in the contract.

Example 1: If an invention is made by a Government employee assigned to work with a contractor, the Government rights in such an invention will be determined under Executive Order 10096.

Example 2: If an invention is made under a contract by joint inventors and one of the inventors is a Government employee, the Government's rights in such an inventor's interest in the invention will also be determined under Executive Order 10096, except where the contractor is a small business or non profit organization, in which case the provisions of Section 202(e) of P.L. 96-517 will apply.

Item 5g(1). Self-explanatory.

Item 5g(2). Self-explanatory with the exception that the contractor or subcontractor shall indicate, if known at the time of this report, whether applications will be filed under either Patent Cooperation Treaty (PTC) or the European Patent Convention (EPC). If such is known, the letters PCT or EPC shall be entered after each listed country.

Item 6a. Self-explanatory.

Item 6b. Self-explanatory.

Item 6c. Self-explanatory.

Item 6d. Patents Rights Clauses are located in FAR 52.227
Item 6e thru 7b. Self-explanatory.

Item 7c. Certification not required by small business firms and domestic nonprofit organizations.

DOD PROPERTY IN THE CUSTODY OF CONTRACTORS

(DFARS 45.505-14)

(See Instructions on reverse before completing this form)

30 SEP 19 ___
OR
_____

OMB No. 0704-0246
Expires Apr 30 1989

REPORT CONTROL SYMBOL
DD-A&LA(1)1087

1. TO (Enter name and address of property administrator)

2. FROM (Enter full name and address of contractor)

3. IF GOVERNMENT-OWNED, CONTRACTOR-OPERATED PLANT, ENTER GOVERNMENT NAME OF PLANT

CONTRACT NO. (PIIN)	5. CONTRACT PURPOSE	6. BUSINESS TYPE (L, S, or N)	7. OFFICIAL NAME OF PARENT COMPANY

8. PROPERTY LOCATION(S)

9. PLANT EQUIPMENT PACKAGE (PEP No. and use)

a. PROPERTY (Type or Account)	b. BALANCE BEGINNING OF PERIOD (1) Acquisition Cost (in dollars)	b. BALANCE BEGINNING OF PERIOD (2) Quantity (in units or acres)	c. ADDITIONS (in dollars)	d. DELETIONS (in dollars)	e. BALANCE END OF PERIOD (1) Acquisition Cost (in dollars)	e. BALANCE END OF PERIOD (2) Quantity (in units or acres)
10. LAND						
11. OTHER REAL PROPERTY						
12. OTHER PLANT EQUIPMENT						
13. INDUSTRIAL PLANT EQUIPMENT						
14. SPECIAL TEST EQUIPMENT						
15. SPECIAL TOOLING (Government Title Only)						
16. MILITARY PROPERTY (Agency-Peculiar)						
17. GOVERNMENT MATERIAL (Government-Furnished)						
18. GOVERNMENT MATERIAL (Contractor-Acquired)						

CERTIFICATION

I certify that this report was prepared under DoD requirements from records maintained under FAR and DFARS 45.5.

19 CONTRACTOR REPRESENTATIVE

a. TYPED NAME	b. SIGNATURE	c. DATE SIGNED

20 DOD PROPERTY REPRESENTATIVE

TYPED NAME	c. SIGNATURE	d. DATE SIGNED
b. TELEPHONE NUMBERS (Commercial and Autovon)		

DD Form 1662, OCT 86 *Previous editions are obsolete.*

EXHIBIT P

GENERAL. The prime contractor shall report all DoD property *(as indicated)* in its custody or in that of its subcontractors as of September 30 to the Government Property Representative by October 21 of each year. Report zero balances on contracts accountable for DoD property when they close.

REPORT AS OF 30 SEP 19___. Fill in the appropriate year *(or other date)*.

ITEM 1 - TO. Enter the name of the Government Property Representative, the Contract Administration Office or other office the Government Property Representative works for, and the full mailing address *(including City, State, and ZIP + 4)*.

ITEM 2 - FROM. Enter the full name and address of the reporting contractor with the Division name stated after the Corporate name. Use the name as it appears on the contract but omit articles and insert spaces between company names that are made up of letters like B D M International Inc., for example.

ITEM 3 - Enter the Government name of the plant if the plant is Government-owned and Contractor-operated. Leave blank if it is a contractor-owned plant.

ITEM 4 - CONTRACT NO. *(PIIN)*. Enter the 13-digit contract number or Procurement Instrument Identification Number *(PIIN)* under which the Government property is accountable. Use format XXXXXX - XX - X - XXXX.

ITEM 5 - CONTRACT PURPOSE. Enter one of the following 1-character alphabetic codes to identify the general purposes of the contract:

a. RDT&E

b. Supplies and Equipment *(deliverable end items)*

c. Facilities Contract

d. Lease of facilities by the contractor

e. Maintenance, Repair, Modification, or Rebuilding of Equipment

f. Operation of a Government-Owned Plant or Facilities including test sites, ranges, installations

g. Service contract performed primarily on Military Installations, test facilities, ranges or sites

h. Contract for storage of Government Property

i. Others

ITEM 6 - TYPE OF BUSINESS. Enter a 1-character alphabetic code indicating the type of business concern:

L = Large S = Small N = Non-profit

(See FAR Part 19 for definition of Small and FAR 31.701 for definition of Non-Profit.)

ITEM 7 - Enter the name of the Parent Corporation of the Reporting Contractor. The Parent Corporation is the one in which common stock has been issued irrespective of whether the stock is publicly traded or not and which is not a subsidiary of another corporation.

ITEM 8 - PROPERTY LOCATION(S). Enter the primary location of the property if it is located at site(s) other than that of the Reporting Contractor, e.g., location of subcontract property, property at alternate sites of the prime contractor. Location the City, State and Zip or the Military Installation or the remote site. Limit input to 69 characters. NOTE: Can be used as "REMARKS" field.

ITEM 9 - PLANT EQUIPMENT PACKAGE. Enter the Number Use of a Plant Equipment Package *(PEP)* if one exists for contract. Leave blank otherwise. Example: ARMY PEP # 0 mm Shells.

ITEMS 10 - 18.b.(1) - ACQUISITION COST (BALANCE AT BEGINNING OF THE FISCAL YEAR). Enter the acquisition cost each type of property as defined in FAR or DFARS 45 amounts reported must agree with the amounts reported previous year for BALANCE AT END OF PERIOD.

ITEMS 10, 12 - 16.b.(2) - QUANTITY (BALANCE AT BEGINNING OF THE FISCAL YEAR). Enter the quantity for all categories Government property except for Other Real Property and Material on hand at the beginning of the fiscal year. amounts reported must agree with the amounts reported previous year for BALANCE AT END OF PERIOD.

ITEMS 10 - 16.c. - ADDITIONS *(in dollars)*. For the property categories indicated, enter the acquisition cost for the additions to the contract from any source during the fiscal year. Do not enter for Government Material.

ITEMS 10 - 16.d. - DELETIONS *(in dollars)*. For the property categories indicated, enter the acquisition cost for the deletions from the contract during the fiscal year. Do not for Government Material.

ITEMS 10 - 18.e.(1) - ACQUISITION COST (BALANCE AT THE OF THE FISCAL YEAR). Enter the acquisition cost for each property as defined in FAR or DFARS 45.5.

ITEMS 10, 12 - 16.e.(2) - QUANTITY (BALANCE AT END OF YEAR). Enter the quantity for all categories of Government Property except for Other Real Property and Material on hand the end of the fiscal year. These will be carried forward to the balance at the beginning of the following year.

ITEM 19 - CONTRACTOR REPRESENTATIVE. Type the name contractor representative authorized by the property system to sign this report. This will be the person certifying report was prepared under DoD reporting requirements records maintained by the contractor under FAR & DFAR. Date and signature of person indicated in item 19.a.

ITEM 20 - DOD PROPERTY REPRESENTATIVE. Type the name the DoD Property Administrator or other Authorized Property Representative, plus that individual's commercial area code telephone number and AUTOVON number *(if one exists)*. Signature and date.

NOTE TO CONTRACTOR: When reporting more than contract from the same location and the same contractor may elect to fill out Data Elements 1, 3, 6, 7, and 19 only as long as each form can be readily identified if any form be separated from the others. The certification in such cases apply to all forms submitted whether or not each form individually signed.

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5. Ibid.

6. Auditor General, U.S. Army Audit; "Contract Closeout Process", Audit Report, June 1987.

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29. Hill Air Force Base, Contract Closeout Report, dated August 1991.

30. Naval Ocean Systems Command, Vouchers/Mod Report, dated October 1991.

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